GEORGE LOCAL MUNICIPALITY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

GENERAL INFORMATION

Mayoral committee

Executive Mayor	C Standers
Deputy Executive Mayor	D Maritz
Speaker	M Draghoender

Councilors

Ward	
1	BA Fortuin
2	C Neetlhing
3	EP De Villiers
4	LD van Wyk
5	LBC Esau
6	JJ Muller
7	FZ Ntozini
8	C Standers
9	T Teyisi
10	MD Gingcana
11	NF Kamte
12	GN Sixolo
13	B Salmani
14	CM Papah
15	FS Guga
16	HJ Jones
17	D Maritz
18	GC Niehaus
19	IC Kritzinger
20	M Draghoender
21	JS Thanda
22	PH de Swardt
23	GJ Stander
24	AM Wildeman
25	MEF Kleynhans

GENERAL INFORMATION

Proportionally elected councillors	SJ Bezuidenhout C Bob TJ Botha BM Cornelius NNE Dlephu J du Toit T Fortuin V Gericke F Harris WT Harris LS Hayward NV Kom PB Komani PS Leholo G Macclune SM Mekana B Petrus LN Qupe GMY Sihoyiya I Stemela PJ van der Hoven AJ van Zyl CT Williams W Witbooi

GENERAL INFORMATION

Auditor	Auditor General of South Africa
Bankers	ABSA Bank Limited
Registered office	Civic Centre York Street 77 GEORGE 6530
Postal address	PO Box 19 GEORGE 6530
Contact numbers	Tel: 044 801 9111 Fax: 044 873 3776
Webiste	www.george.org.za
E-mail	post@george.org.za
Accounting Officer	T Botha Acting 17 December 2010 - 31 December 2011 Appointed 1 January 2012
Chief Finance Officer (CFO)	CJ Kapp Acting 3 January 2011 to 31 December 2011 MM Cupido Acting from 1 January 2012
Legal form of entity	Municipality
Grading of local authority	Grade 4

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

MUNICIPAL MANAGER'S APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

I am responsible for the preparation of these Financial Statements, which are set out on pages 6 to 101 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act. Refer to note 25 for the disclosure of Councillor remuneration.

T BOTHA
MUNICIPAL MANAGER

George

31 August 2012

STATEMENT OF FINANCIAL POSITION

Figures in Rand	Note	2012	2011 RESTATED
Assets			
Current Assets			
Inventories	2	185,169,924	183,593,035
Trade receivables from exchange and non-exchange transactions	3	87,298,374	78,250,124
Other receivables	4	34,140,674	30,698,239
VAT receivable	5	4,964,237	6,507,404
Loans and receivables	6	332,646	316,243
Cash and cash equivalents	7	218,901,017	232,496,590
		530,806,872	**531,861,635**
Non-Current Assets			
Property, plant and equipment	8	1,951,122,976	1,867,101,024
Intangible assets	9	1,802,071	2,098,782
Investment property	10	149,918,175	137,320,001
Loans and receivables	6	1,097,659	1,356,627
		2,103,940,881	**2,007,876,434**
Total Assets		**2,634,747,753**	**2,539,738,069**
Liabilities			
Current Liabilities			
Loans and borrowings	11	33,843,432	30,533,273
Trade and other payables from exchange transactions	12	92,363,464	93,220,346
Consumer deposits	13	15,933,169	14,897,278
Employee benefits	14	24,582,073	20,649,472
Provisions	15	3,268,425	1,394,549
Unspent conditional grants and receipts	16	41,994,057	30,178,410
		211,984,620	**190,873,328**
Non-Current Liabilities			
Loans and borrowings	11	487,033,565	520,869,762
Employee benefits	14	109,146,328	92,520,643
Provisions	15	13,622,181	13,865,277
		609,802,074	**627,255,682**
Total Liabilities		**821,786,694**	**818,129,010**
Net Assets		**1,812,961,059**	**1,721,609,059**
Net Assets			
Reserves			
Housing development fund	17	74,011,194	70,710,661
Accumulated surplus		1,738,949,865	1,650,898,398
Total Net Assets		**1,812,961,059**	**1,721,609,059**

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note	2012	2011 RESTATED
Revenue			
Revenue from non-exchange transactions		347,592,056	342,666,476
Property rates	18	127,788,416	118,880,826
Property rates - penalties imposed and collection charges		1,217,609	1,329,568
Government grants and subsidies	19	203,529,414	209,306,671
Fines		15,056,617	13,149,411
Revenue from exchange transactions		585,387,702	508,436,322
Service charges	20	527,786,442	454,504,719
Rental revenue	21	2,102,676	1,828,659
Income from agency services		5,751,031	5,427,377
Licences and permits		2,450,997	2,106,193
Other income	22	29,008,428	25,499,953
Interest received	23	18,288,128	19,069,421
Total Revenue		**932,979,758**	**851,102,798**
Expenditure			
Personnel costs	24	248,879,435	228,773,187
Remuneration of councilors	25	13,868,487	10,691,294
Loss on disposal of assets		11,285,936	440,326
Depreciation and amortisation	26	106,672,111	94,576,906
Impairment losses	27	19,557,889	27,523,970
Finance costs	28	57,217,007	53,170,188
Collection costs		4,728,414	5,960,226
Repairs and maintenance		52,813,917	55,364,168
Bulk purchases	29	244,403,075	192,921,333
Contracted services	30	100,248,256	94,626,895
Grants and subsidies paid	31	1,188,374	5,124,374
Cost of erven sold		487,940	970,000
General Expenses	32	77,960,745	75,402,098
Total Expenditure		**939,311,586**	**845,544,965**
(Deficit) surplus for the year		**(6,331,828)**	**5,557,833**

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Housing Development Fund	Accumulated surplus	Total net assets
Opening balance as previously reported	70,082,858	1,754,408,864	1,824,491,722
Adjustments			
Prior year adjustment - refer to note 39.1	-	2,854,807	2,854,807
Prior year adjustment - refer to note 39.3	-	12,338,396	12,338,396
Prior year adjustment - refer to note 39.4	-	5,777,105	5,777,105
Prior year adjustment - refer to note 39.7	-	(127,584,292)	(127,584,292)
Prior year adjustment - refer to note 39.8	-	945,100	945,100
Prior year adjustment - refer to note 39.9	-	(2,771,612)	(2,771,612)
Balance at 01 July 2010 as restated	**70,082,858**	**1,645,968,368**	**1,716,051,226**
Changes in net assets			
Transfer to/(from) Housing Development Fund	627,803	(627,803)	-
Net income (losses) recognised directly in net assets	627,803	(627,803)	-
Surplus for the year	-	5,557,833	5,557,833
Total recognised income and expenditure for the year	627,803	4,930,030	5,557,833
Total changes	627,803	4,930,030	5,557,833
Balance at 01 July 2011	**70,710,661**	**1,650,898,400**	**1,721,609,061**
Changes in net assets			
Transfer to/(from) Housing Development Fund	3,300,533	(3,300,533)	-
Transfer of function between entities under common control - refer to note 40	-	97,683,826	97,683,826
Net income (losses) recognised directly in net assets	3,300,533	94,383,293	97,683,826
Surplus for the year	-	(6,331,828)	(6,331,828)
Total recognised income and expenditure for the year	3,300,533	88,051,465	91,351,998
Total changes	3,300,533	88,051,465	91,351,998
Balance at 30 June 2012	**74,011,194**	**1,738,949,865**	**1,812,961,059**

Note(s)

CASH FLOW STATEMENT

Figures in Rand	Notes	2012	2011
Cash flows from operating activities			
Cash receipts from ratepayers, government and others		894,703,638	913,368,530
Cash paid to suppliers and employees		(729,238,125)	(698,477,915)
Cash generated from operations	33	165,465,513	214,890,615
Finance income		18,288,128	19,069,421
Finance costs		(57,217,007)	(51,759,061)
Net cash from operating activities		**126,536,634**	**182,200,975**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(109,726,106)	(136,634,521)
Proceeds on disposal of property, plant and equipment	8	149,189	964,700
Purchase of intangible assets	9	(271,816)	(620,981)
Decrease in loans and receivables		242,564	1,749,921
Net cash flows from investing activities		**(109,606,169)**	**(134,540,881)**
Cash flows from financing activities			
Proceeds from loans and borrowings		-	65,000,000
Repayment of loans and borrowings		(30,526,038)	(27,044,928)
Net cash flows from financing activities		**(30,526,038)**	**37,955,072**
Total cash movement for the year		**(13,595,573)**	**85,615,166**
Cash and cash equivalents at the beginning of the year		232,496,590	146,881,424
Cash and cash equivalents at the end of the year	7	**218,901,017**	**232,496,590**

ACCOUNTING POLICIES

George Municipality is a local government institution in George, Western Cape. The addresses of its registered office and principal place of business are disclosed under General Information. Refer to page 3.

The accounting policies for the Municipality are:

1. Accounting policies

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

These accounting policies are consistent with the previous period.

1.1 Presentation of Financial Statements

The financial statements have been prepared on the historical cost basis except as noted in the accounting policies below.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP do not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated.

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not yet effective:

Standard	Description	Effective Date (Year commencing on)
GRAP 1(Revised)	Presentation of Financial Statements	1 April 2013
GRAP 3(Revised)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2013
GRAP 9(Revised)	Revenue from Exchange Transactions	1 April 2013
GRAP 12(Revised)	Inventories	1 April 2013
GRAP 13(Revised)	Leases	1 April 2013
GRAP 16(Revised)	Investment Property	1 April 2013
GRAP 17(Revised)	Property, plant and equipment	1 April 2013
GRAP 21	Impairment of non-cash-generating assets	1 April 2012
GRAP 23	Revenue from Non-Exchange Transactions	1 April 2012
GRAP 25	Employee Benefits	1 April 2013
GRAP 26	Impairment of cash-generating assets	1 April 2012
GRAP 104	Financial Instruments	1 April 2012

The Municipality resolved to formulate an accounting policy based on the following GRAP standards which have been issued but are not yet effective:

Standard	Description	Effective Date
GRAP 24	Presentation of Budget Information in Financial Statements	Unknown
GRAP105	Transfer of Functions between Entities under common control	Unknown

1.1 Presentation of Annual Financial Statements (continued)

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3.

A summary of the significant accounting policies, which have been consistently applied except where an exemption or transitional provision has been granted, are disclosed below.

Assets, liabilities, revenue and expenditure have not been offset except when offsetting is permitted or required by a Standard of GRAP.

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible Assets where the acquisition cost of an asset could not be determined.

If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or an intangible asset, an entity may estimate such fair value using depreciated replacement cost.

The cost for depreciated replacement cost is determined by using either one of the following:

- cost of items with a similar nature currently in the Municipality's asset register;
- cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;
- cost as supplied by suppliers.

Significant judgements, estimates and assumptions

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

The preparation of financial statements in conformity with GRAP requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may vary from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of GRAP that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 39.

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

Post retirement medical obligations, long service awards and ex gratia gratuities

The cost of post retirement medical obligations, long service awards and ex-gratia gratuities are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

1.1 Presentation of Annual Financial Statements (continued)

Impairment of receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

Property, plant and equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of on independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Intangible assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets.

Investment property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of on independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Provisions and contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

1.1 Presentation of Annual Financial Statements (continued)

Revenue recognition

Accounting Policy 1.21 on Revenue from Non-Exchange Transactions and on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. Revenue from the issuing of spot fines and summonses has been recognised on the accrual basis using estimates of future collections based on the actual results of prior periods. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

Going concern assumptions

These financial statements have been prepared on a going concern basis.

Functional and presentation of currency

Amounts reflected in the financial statements are in South African Rand. Financial values are rounded to the nearest one Rand. No foreign exchange transactions are included in the statements.

Offsetting

Assets, liabilities, revenue and expenditure have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.2 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. In general, materiality is determined as 1% of total expenditure.

1.3 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

1.3 Standards, amendments to standards and interpretations issued but not yet effective (continued)

Standard	Description	Effective Date
GRAP 18	Segment Reporting Presentation of the financial statements will be affected by this standard.	Unknown
GRAP20	Related party disclosure Presentation of the financial statements will be affected by this standard.	Unknown
GRAP 24	Presentation of Budget Information in Financial Statements Information to a large extent is already included in the notes to the financial statements and the impact is assessed to not be significant.	1 April 2012
GRAP 105	Transfer of Functions Between Entities Under Common Control No significant impact is expected as the Municipality already formulated an accounting policy based on this standard for such transactions.	Unknown
GRAP 106	Transfer of Functions Between Entities Not Under Common Control No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 107	Mergers No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

1.4 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.5 Leases

A lease is classified as a finance lease if it substantially transfers all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not substantially transfer all the risks and rewards incidental to ownership.

1.5 Leases (continued)

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

The Municipality as Lessee

Property, plant and equipment or intangible assets, except intangible assets such as licensing agreements , subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables.

Payments made under operating leases are recognised in surplus or deficit on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

The Municipality as Lessor

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Payments received under operating leases are recognised in surplus or deficit on a straight-line basis over the term of the lease.

1.6 Unspent conditional government grants and receipts

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

A liability for unspent conditional grants are recognised only to the extent that the conditions attached to the grant have not been satisfied and are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

1.7 Unpaid conditional government grants and receipts

Unpaid conditional grants are assets in terms of GRAP that are separately reflected on the Statement of Financial Position. The asset is recognised when the municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

The following provisions are set for the creation and utilisation of the grants as receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

1.8 Provisions and contingencies

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is possible that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of the expenditure required to settle the present obligation. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits is possible.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The Municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented.

(b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measures with sufficient reliability.

Management judgement is required when recognising and measuring contingent liabilities.

1.9 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Short-term employee benefits

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay and bonuses, are recognised during the period in which the employee renders the related service. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

Long-service award
Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality. The municipality's obligation is valued by independent qualified actuaries at year-end and the corresponding liability is raised. Payments set-off against the liability, including notional interest, resulting from the valuation by the actuaries, are charged against the statement of financial performance.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, are charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

Accrued leave pay
Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee.

Staff Bonuses
Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonuses accrued at year end for each employee.

Performance bonuses
A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is maintained. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

Post-employment benefits

Post-employment benefits are employee benefits which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

The Municipality provides post retirement benefits for its employees and councillors. Council pays 70% as contributions and the remaining 30% are paid by the members.

Multi-employer Defined Benefit and Defined Contribution Plans

The municipality classifies a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for it in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

The municipality contributes to various National- and Provincial-administered plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 14 of the Financial Statements for details)

1.9 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the statement of financial performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. It defines an amount of benefit that an employee will receive on retirement. The municipality's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value. Any unrecognised past service cost and the fair value of any plan assets are deducted.

Actuarial gains and losses comprise of adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

1.9 Employee benefits (continued)

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until

1.9 Employee benefits (continued)

- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Other post retirement obligations

The municipality provides certain post-retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The Municipality provides post-retirement medical benefits by subsidising the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

1.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in the Statement of Financial Performance when incurred.

1.11 Property, plant and equipment

Recognition and measurement
Property, plant and equipment is recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to the municipality and the cost of the item can be measured reliably.

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, where applicable.

Property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and other directly attributable costs incurred in the acquisition, establishment and installation of such assets so as to bring them to a working condition for their intended use.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Trade discounts and rebates are deducted in arriving at the cost. Borrowing costs related to the acquisition, construction or production of qualifying assets are capitalised.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired are initially measured at fair value (the cost). It the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

The cost of day-to-day servicing of property, plant and equipment are recognised in surplus or deficit as incurred.

Leased assets
Leases in terms of which the municipality assumes substantially all the risks and rewards of ownership are classified as finance leases. Vehicles and office equipment acquired by way of finance leases are measured upon initial recognition at an amount equal to the lower of its fair value and the present value of the minimum lease payments less accumulated depreciation and accumulated impairment losses. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Leased assets are depreciated over the lesser of the useful life or lease term.

1.11 Property, plant and equipment (continued)

Subsequent costs
Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset are enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally best estimate of the expected useful life of the asset, then it is regarded as repairs and maintenance and is expensed.

Depreciation
Depreciation is recognised in surplus or deficit on a straight-line basis over the estimated useful life of each item of property, plant and equipment.

Depreciation begins when an asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with GRAP 100. A non-current asset or disposal group is not depreciated while it is classified as held for sale. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The depreciation rates are initially based on the following originally estimated useful lives and thereafter on the estimated remaining useful lives as at year-end.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life in years**
Infrastructure	
• Electricity	20 - 30
• Roads and paving	3 - 30
• Water	10 - 20
• Gas	20
• Sewerage	3 - 30
• Pedestrian malls	20
• Airports	20
• Security measures	3 - 30
Community	
• Buildings	20 - 30
• Recreational facilities	20
Heritage assets	
• Buildings	Not applicable
Other	
• Office equipment	3 - 5
• Furniture and fittings	7
• Bins and containers	10
• Emergency equipment	5 - 15
• Motor vehicles	3 - 20
• Aircraft	Not applicable
• Watercraft	15
• Plant and equipment	2 - 20
Other - general	
• Animal pounds	5
Land and buildings	
• Buildings	30
• Land	Not applicable

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

1.11 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.12 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Where an intangible asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Research and development
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in surplus or deficit when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure capitalised only if development costs can be measured reliably, the product or processes are technically and commercially feasible, future economic benefits or service potential are probable, and the municipality intends to and has sufficient resources to complete the development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in surplus or deficit when incurred. Other development expenditure is recognised in surplus or deficit when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

1.12 Intangible assets (continued)

Subsequent costs
After the initial measurement of intangible assets, subsequent expenditure is only capitalised if future economic benefits or service potential over the total life of the intangible assets, in excess of the most recently assessed standard of performance of the existing intangible assets, will flow to the municipality

Intangible assets consist of computer software.

Amortisation is charged on a straight-line basis over their useful lives, which is estimated to be between 5 to 10 years. (2011: 5 to 10 years). Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised.

Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount

Amortisation methods and useful lives are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively.

Derecognition

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.13 Investment property

Initial Recognition

Investment property shall be recognised as an asset when, and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
- the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

1.13 Investment property (continued)

Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Investment Property	**Years**
Buildings	30

Derecognition

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Application of deemed cost - Directive 7

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2007.

Investment property is land and/or buildings held either to earn rental revenue or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes.

Investment property is measured at cost less accumulated depreciation and accumulated impairment losses. Investment property acquired at no or nominal consideration is initially recognised at fair value and subsequently carried at the initially determined fair value less accumulated depreciation and accumulated impairment losses.

The fair value of investment property is determined at the reporting date based on the latest general valuation roll.

1.14 Non-current assets held for sale and disposal groups

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the municipality's accounting policies for the individual assets. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated to assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, employee benefit assets and investment property, which continue to be measured in accordance with the municipality's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in surplus or deficit. Gains are not recognised in excess of any cumulative impairment loss.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenditure attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.15 Impairment

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.16 Inventories

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

Cost of inventory comprises all costs of purchase, cost of conversion and other cost incurred in bringing the inventory to its present location and condition.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

1.16 Inventories (continued)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related income is recognised. Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and are sold by public auction. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Water and purified effluent are valued at purified cost insofar as it is stored and controlled in reservoirs at year-end.

1.17 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

1.17 Financial instruments (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;

1.17 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of **financial assets** as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables	Financial asset measured at amortised cost
Loans and receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of **financial liabilities** as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans and borrowings	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Gains and losses

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

1.17 Financial instruments (continued)

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

1.17 Financial instruments (continued)

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.18 Revenue

Revenue includes rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be reliably measured, except when specifically stated otherwise.

Revenue from the sale of goods in the ordinary course of the municipality's activities is measured at the fair value of the consideration received or receivable, net of value-added tax, estimated returns, rebates and discounts. Revenue from the rendering of services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Revenue from Exchange Transactions

Service Charges
Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Pre-paid electricity
Revenue from the sale of electricity prepaid units is recognised when the risks and rewards of ownership has passed to the buyer, i.e. at the point of sale. At year-end the recognition is based on an estimate of the prepaid electricity consumed as at the reporting date. The consumption of pre-paid electricity is measured by using a trend analysis and other historical data about electricity usage.

Interest earned and rentals received
Interest income is recognised in surplus or deficit as it accrues, using the effective interest rate method. Rental income is recognised on a straight-line basis over the lease term. Interest may be transferred from the Accumulated Surplus to the Housing Development Fund.

Interest earned on unutilised conditional grants is not recognised in the statement of financial performance. It is allocated directly to the liability: Unspent Conditional Grants if the grant conditions indicate that interest is payable to the grantor.

1.18 Revenue (continued)

Dividends
Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Royalties
Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Tariff Charges
Revenue arising from the application of the approved tariff of charges is recognised when the service is rendered by applying the relevant approved tariff. This includes the issuing of licences and permits.

Agency commission
Commission for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Housing rental and installments
Finance income from the sale of housing by way of installment sales agreements or finance leases is recognised as it accrues in surplus or deficit using the effective interest method.

Sale of goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from non-exchange transactions

Rates and taxes
Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised using the effective interest method. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines
Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines that will be received based on past experience of amounts collected. There is uncertainty regarding recoverability of outstanding fines and summonses. Spot fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the Public Prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. It is therefore not possible to measure this revenue when the summons is issued and an estimate of summonses is not included, as a reliable estimate can not be made.

Donations and Contributions
Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, at the fair value of the property, plant and equipment received or receivable. Contributed property, plant and equipment are recognised when the risks and rewards of ownership have transferred to the municipality.

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure
Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Unconditional grant
An unconditional grant is recognised in surplus or deficit when the grant becomes receivable.

1.18 Revenue (continued)

Conditional grants and receipts
Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the grantor it is recorded as part of the liability and if not it is recognised as interest earned in the statement of financial performance.

Grants that compensate the municipality for expenses incurred are recognised in surplus or deficit on a systematic basis in the same periods in which the expenses are recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Grants and receipts of a revenue nature
Income is transferred to the statement of financial performance as revenue to the extent that the criteria, conditions or obligations have been met. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the statement of financial performance in the period in which they become receivable.

Public contributions
Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property , plant and equipment is brought into use . Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

1.19 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:
- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2nd and 3rd bullet, or over which such a person is able to exercise significant influence.

Key management personnel include:
- All directors or members of the governing body of the entity, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer an all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

ACCOUNTING POLICIES

1.20 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance in the year that the expense was incurred and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by Council it is treated as an asset until it is recovered or written off as irrecoverble.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is no condoned by the Council it is treated as an asset until it is recovered or written of as irrecoverable.

1.22 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance in the year that the expenditure was recorded and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Value Added Tax

Revenue, expenses and assets are recognised net of the amounts of Value Added Tax. The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

The Municipality accounts for Value Added Tax on the cash basis. The municipality is liable to account for Value Added Tax at the standard rate (14%) in terms of section 7(1) of the VAT Act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 or is out of scope foe VAT purposes. The timing of payments to or from the South African Revenue Service is the last day of each of the twelve months of the financial year.

1.24 Grant-in-aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

ACCOUNTING POLICIES

1.25 Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

1.26 Foreign currencies

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the statement of financial performance

1.27 Change in accounting policy, estimates and errors

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 39 of the financial statements for details of corrections of errors recorded during the period under review.

1.28 Events after reporting date

Events after the reporting date that are classified as adjusting events are accounted for in the financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date are disclosed in the notes to the financial statements.

1.29 Comparative information

Current year comparatives
As noted, GRAP 24 is not effective yet, however budget information required in terms of GRAP 1 (Revised – March 2012) paragraph 11 to 14 have been disclosed in the financial statements. The presentation of budget information was prepared in accordance with the best practice guidelines issued by National Treasury. Budgeted amounts have been provided in note 50 to these financial statements.

Prior year comparatives
When the presentation or classification of items in the financial statements is amended, comparative amounts are restated or reclassified except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the amendment. The nature and reason for the restatement or reclassification is disclosed in note 39.

1.30 Share capital/contributions from owners

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use . Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

1.31 Transfer of functions between entities under common control

Accounting by the entity as acquirer

Initial recognition and measurement

As of the transfer date, the municipality recognises the purchase consideration paid to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the transfer of functions, the transferor was not applying the accrual basis of accounting, the transferor changes its basis of accounting to the accrual basis of accounting prior to the transfer.

The consideration paid by the municipality can be in the form of cash, cash equivalents or other assets. If the consideration paid is in the form of other assets, the municipality de-recognises such assets on the transfer date at their carrying amounts.

The difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid to the transferor, is recognised in accumulated surplus or deficit.

Measurement period

If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the municipality reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality retrospectively adjust the provisional amounts recognised at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the municipality receives the information it was seeking about facts and circumstances that existed as of the transfer date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the transfer date.

The municipality considers all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the transfer date.

The municipality recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability.

During the measurement period, the municipality recognises adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the municipality revises comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the municipality revises the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Subsequent measurement

The municipality subsequently measure any assets acquired and any liabilities assumed in a transfer of functions in accordance with the applicable Standards of GRAP.

At the transfer date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date. An exception is that the municipality classifies the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date):

- classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases; and
- classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on Insurance Contracts.

Where provisions are acquired through a transfer of functions, the municipality is not required to measure these provisions for a period of three years from the effective date of the Standard or the effective date of the transfer of functions, whichever is later as allowed by Directive 3.

1.32 Capital commitments

Capital commitments disclosed in the financial statements represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

1.33 Amended disclosure policy

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include fundamental errors, and the treatment of assets financed by external grants.

Figures in Rand	2012	2011

2. Inventories

Consumable stores - at cost	7,935,124	8,453,406
Maintenance materials, chemicals and water reserve - at cost	8,607,509	5,417,634
Housing Development Fund - Unsold Units	339,041	373,395
Unsold Properties Held for Resale	168,288,250	169,348,600
	185,169,924	**183,593,035**

The cost of inventories recognised as an expense includes R 47 697 (2011: R 9 228) in respect of impairment of inventory to net realisable value (refer to note 32).

Erven used for housing developments are part of inventory, but does not have a value as it is given away after housing projects are completed.

The prior period balances were restated for prior period error adjustments, refer to note 39.7 for more detail.

3. Trade receivables from exchange and non-exchange transactions

Gross balances		
Trade receivable from exchange transactions		
Electricity	39,125,932	32,832,335
Housing rental	311,015	322,674
Housing loan instalments	942,963	1,221,944
Other consumer debtors	5,726,719	5,004,280
Refuse	10,517,452	11,225,437
Sewerage	13,554,357	13,015,764
Water	22,314,764	20,513,600
Trade receivables from non-exchange transactions		
Rates	22,381,401	22,998,397
	114,874,603	**107,134,431**
Less: Provision for debt impairment		
Trade receivables from exchange transactions		
Electricity	9,606,543	9,957,891
Housing rental	76,363	98,328
Housing loans instalments	231,525	339,830
Other consumer receivables	777,281	1,397,316
Refuse	2,582,337	3,305,546
Sewerage	3,327,985	3,832,742
Water	5,478,917	8,907,778
Trade receivables from non-exchange transactions		
Rates	5,495,278	1,044,876
	27,576,229	**28,884,307**
Net balance		
Trade receivables from exchange transactions		
Electricity	29,519,389	22,874,444
Housing rental	234,652	224,346
Housing loan instalments	711,438	882,114
Other consumer receivables	4,949,438	3,606,964
Refuse	7,935,115	7,919,891
Sewerage	10,226,372	9,183,022
Water	16,835,847	11,605,822
Trade receivables from non-exchange transactions		
Rates	16,886,123	21,953,521
	87,298,374	**78,250,124**

Notes to the Financial Statements

	2012	2011

3. Trade receivables from exchange and non-exchange transactions (continued)

Electricity		
Current (0 -30 days)	28,133,326	23,748,557
31 - 60 days	1,483,772	1,241,519
61 - 90 days	552,308	753,095
91 - 120 days	429,811	397,139
> 121 days	8,526,715	6,692,025
Less: Impairment	(9,606,543)	(9,957,891)
	29,519,389	**22,874,444**
Housing rentals		
Current (0 -30 days)	44,559	33,862
31 - 60 days	8,894	8,667
61 - 90 days	6,776	7,987
91 - 120 days	6,493	6,723
> 121days	244,293	265,435
Less: Impairment	(76,363)	(98,328)
	234,652	**224,346**
Housing loans instalments		
Current (0 -30 days)	49,918	55,543
31 - 60 days	11,643	20,327
61 - 90 days	9,129	18,616
91 - 120 days	9,450	16,406
> 121 days	862,823	1,111,052
Less: Impairment	(231,525)	(339,830)
	711,438	**882,114**
Other consumer receivables		
Current (0 -30 days)	948,905	887,199
31 - 60 days	211,099	236,003
61 - 90 days	221,090	90,844
91 - 120 days	187,291	358,616
> 121 days	4,158,334	3,431,618
Less: Impairment	(777,281)	(1,397,316)
	4,949,438	**3,606,964**
Refuse		
Current (0 -30 days)	2,450,994	2,310,383
31 - 60 days	458,476	466,306
61 - 90 days	315,654	394,380
91 - 120 days	256,841	271,108
> 121 days	7,035,487	7,783,260
Less: Impairment	(2,582,337)	(3,305,546)
	7,935,115	**7,919,891**

	2012	2011
3. Trade receivables from exchange and non-exchange transactions (continued)		
Sewerage		
Current (0 -30 days)	3,185,963	3,075,947
31 - 60 days	624,023	600,880
61 - 90 days	429,799	470,034
91 - 120 days	359,711	337,996
> 121 days	8,954,863	8,530,907
Less: Impairment	(3,327,987)	(3,832,742)
	10,226,372	**9,183,022**
Water		
Current (0 -30 days)	9,320,701	7,854,808
31 - 60 days	932,255	759,332
61 - 90 days	602,163	599,426
91 - 120 days	530,703	438,533
> 120 days	10,928,942	10,861,501
Less: Impairment	(5,478,917)	(8,907,778)
	16,835,847	**11,605,822**
Rates		
Current (0 -30 days)	6,293,040	7,063,036
31 - 60 days	1,092,749	929,411
61 - 90 days	563,011	664,063
91 - 120 days	447,662	442,372
121 - 365 days	13,984,939	13,899,514
Less: Impairment	(5,495,278)	(1,044,875)
	16,886,123	**21,953,521**
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	37,521,702	37,579,835
31 - 60 days	2,266,601	2,286,612
61 - 90 days	2,318,405	2,048,474
91 - 120 days	1,915,893	1,540,221
> 121 days	51,007,240	47,252,453
	95,029,841	90,707,595
Less: Provision for debt impairment	(23,426,849)	(23,312,340)
	71,602,992	**67,395,255**
Industrial/ commercial		
Current (0 -30 days)	7,912,372	7,264,217
31 - 60 days	436,953	840,924
61 - 90 days	588,847	425,074
91 - 120 days	355,187	331,655
> 121 days	7,527,786	6,110,629
	16,821,145	14,972,499
Less: Provision for debt impairment	(4,149,381)	(5,571,967)
	12,671,764	**9,400,532**

	2012	2011

3. Trade receivables from exchange and non-exchange transactions (continued)

National and provincial government and other		
Current (0 -30 days)	1,890,252	559,367
31 - 60 days	106,655	33,668
61 - 90 days	31,954	8,828
91 - 120 days	7,311	15,883
> 121 days	987,446	836,593
	3,023,618	1,454,339
Less: Provision for debt impairment	-	-
	3,023,618	**1,454,339**
Total		
Current (0 -30 days)	47,324,326	45,403,419
31 - 60 days	2,810,209	3,161,204
61 - 90 days	2,939,206	2,482,375
91 - 120 days	2,278,391	1,887,759
> 121 days	59,522,472	54,199,674
	114,874,604	107,134,431
Less: Provision for debt impairment	(27,576,230)	(28,884,307)
	87,298,374	**78,250,124**
Less: Provision for debt impairment		
Current (0 -30 days)	11,360,444	6,020,304
31 - 60 days	674,605	1,370,155
61 - 90 days	705,571	1,075,932
91 - 120 days	546,939	818,208
> 121 days	14,288,670	19,599,708
	27,576,229	**28,884,307**

2012

Reconciliation of debt impairment provision	Balance at beginning of year	Impairment losses recognised	Amounts written off as uncollectable	Balance at end of the year
Exchange transaction				
Electricity	9,957,891	34,915	(386,263)	9,606,543
Housing rentals	98,328	(21,965)	-	76,363
Housing loan instalments	339,830	(108,305)	-	231,525
Other consumer receivables	1,397,316	(176,119)	(443,916)	777,281
Refuse	3,305,546	5,068,011	(5,791,219)	2,582,338
Sewerage	3,832,742	6,392,072	(6,896,829)	3,327,985
Water	8,907,778	3,319,687	(6,748,548)	5,478,917
Non-exchange transaction				
Rates	1,044,876	6,337,969	(1,887,568)	5,495,277
	28,884,307	**20,846,265**	**(22,154,343)**	**27,576,229**

	2012	2011

3. Trade receivables from exchange and non-exchange transactions (continued)

2011

Reconciliation of debt impairment provision	Balance at beginning of year	Impairment losses recognised	Amounts written off as uncollectable	Balance at end of the year
Exchange transaction				
Electricity	5,949,644	4,566,353	(558,106)	9,957,891
Housing rentals	142,504	-	(44,176)	98,328
Housing loan instalments	436,776	-	(96,946)	339,830
Other consumer receivables	1,782,183	-	(384,867)	1,397,316
Refuse	3,654,238	3,815,548	(4,164,240)	3,305,546
Sewerage	4,391,570	4,883,573	(5,442,401)	3,832,742
Water	5,314,290	13,687,154	(10,093,666)	8,907,778
Non-exchange transaction				
Rates	5,263,785	2,140,701	(6,359,610)	1,044,876
	26,934,990	**29,093,329**	**(27,144,012)**	**28,884,307**

The prior period balances were restated for prior period error adjustments, refer to note 39 for more detail.

4. Other receivables

Sundry receivables	31,344,086	29,907,900
Deposits	20,000	20,000
Loans to employees	43,447	130,428
Non-cash portion of Housing Development Fund	1,291,305	1,483,572
Operating lease asset	181,083	186,801
George Housing Association	1,604,569	-
Salary control accounts	24,951	19,186
Short-term loans	15,910	15,910
Impairment allowance	(384,677)	(1,065,558)
	34,140,674	**30,698,239**

Fair value of trade and other receivables

The management of the municipality is of the opinion that the carrying value of Other Receivables approximate their fair values. The fair value of Other Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and National/Provincial Departments as well as other customers. The current payment ratio's of Other Receivables were also taken into account for fair value determination.

Reconciliation for impairment allowance

Opening balance	1,065,558	1,681,305
Impairment recognised	-	(503,333)
Amounts written off as uncollectable	(680,881)	(112,414)
	384,677	**1,065,558**

The impairment allowance was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios. The impairment allowance on Other Receivables exists predominantly due to the possibility that these debts will not be recovered. Other Receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

	2012	2011

4. Other receivables (continued)

Operating lease asset		
Opening balance	186,801	170,139
Operating lease revenue recognised in the Statement of Financial Performance	(5,718)	16,662
	181,083	**186,801**
Operating leases - as lessor (income)		
Minimum lease payments due		
- within one year	338,028	524,294
- in second to fifth year inclusive	510,330	732,360
- later than five years	599,682	684,582
	1,448,040	**1,941,236**

Operating leases relate to property owned by the municipality with lease terms of between 5 and 20 years, with an option to extend for a further 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:
·Municipal buildings
·Vacant land

No restrictions have been imposed on the municipality in terms of the operating lease agreements.

George Housing Association

The municipality contributed an amount of R5,1 million towards the establishment of the George Housing Association. The contributions were made in the 2005/06 to 2007/08 financial years with the last amount contributed during March 2008. The association was established as an Article 21 company and was never legally regarded as a municipal entity as stipulated in the Municipal Finance Management Act.

Upon legal action taken by the municipality, a court order was issued on 8 June 2012 against George Housing Association that the R5,1 million should be repaid to the municipality. The municipality received R1,604,568, being the balance in the bank account of the George Housing Association, on 5 July 2012. It is uncertain if the municipality will receive the balance of the R5,1 million.

5. VAT receivable

VAT receivable from / (payable to) SARS	(763,044)	1,824,990
VAT input provision	5,756,035	4,676,466
VAT output provision	(28,754)	5,948
	4,964,237	**6,507,404**

VAT is payable to SARS on the payment basis. Only once payment is received from customers, VAT is paid over to SARS. No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

The amount due to SARS for 30 June 2012 was paid over to them on 25 July 2012.

The prior period balances were restated for prior period errors adjusted. Refer to note 39.1, 39.3 and 39.4

Notes to the Financial Statements

	2012	2011

6. Loans and receivables

As at 30 June 2012	Gross balance	Impairment allowance	Net balance	Transferred to current assets	Non-current
Housing scheme loans	2,447,179	(1,738,966)	708,213	(147,992)	560,221
Sale of erven loans	155,927	-	155,927	(12,098)	143,829
Loans to other organisations	456,230	-	456,230	(99,433)	356,797
Actaris meter debt	109,935	-	109,935	(73,123)	36,812
	3,169,271	**(1,738,966)**	**1,430,305**	**(332,646)**	**1,097,659**

As at 30 June 2011	Gross balance	Impairment allowance	Net balance	Transferred to current assets	Non-current
Housing scheme loans	3,966,317	(3,027,341)	938,976	(181,349)	757,627
Sale of erven loans	162,230	-	162,230	(19,460)	142,770
Loans to other organisations	541,008	-	541,008	(84,778)	456,230
Actaris meter debt	30,656	-	30,656	(30,656)	-
	4,700,211	**(3,027,341)**	**1,672,870**	**(316,243)**	**1,356,627**

Housing scheme loans
No housing loans may be granted to officials and the public. The outstanding amount is in respect of loans granted before 1 July 2005 and will be recovered over the remaining period of the loan agreements. The interest rate applicable to the loans is 13.5%.

Sale of erven loans
As from 1 July 2006 no loan agreements are entered into for the sale of erven. The outstanding loans will be recovered over the remaining period of the individual loan agreements entered into. The interest rates applicable to the loans varies between 11.0% and 14.5%.

Loans to other organisations
The outstanding amount is in respect of loans granted to sports organisations (Section 185 (a) Ord.20 of 1974) before 1 July 2005 and will be recovered over the remaining period of the loan agreements. The loans consists of a loan to George Golf Club at 17.0% and Outeniqua Bowling Club at 8.0%.

Actaris meter costs
Arrear amounts on services are capitalised on completion of a formal agreement. These arrear amounts are then paid to the municipality in monthly instalments over a period not exceeding 60 months. No interest is charged on these amounts where the stipulations of the agreement are adhered to.

The management of the municipality is of the opinion that the carrying value of loans and receivables recorded at amortised cost in the Financial Statements approximate their fair values.

The fair value of loans and receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's trade receivables.

	2012	2011

6. Loans and receivables (continued)

Reconciliation of impairment allowance

2012	Balance at beginning of year	Impairment losses reversed	Amounts written off as uncollectable	Balance at end of the year
Housing scheme loans	3,027,341	(1,288,375)	-	1,738,966

2011	Balance at beginning of the year	Impairment losses reversed	Amounts written off as uncollectable	Balance at end of the year
Housing scheme loans	4,093,367	(1,066,026)	-	3,027,341

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	20,650	19,740
Bank balances	218,880,367	232,444,469
Short-term deposits	-	32,381
	218,901,017	**232,496,590**

For the purposes of the cash flow statement, cash and cash equivalents include the above mentioned items, net of outstanding bank overdrafts.

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
ABSA BANK - Cheque Account - 102 222 0981	218,953,142	232,695,497	218,880,367	232,444,469
ABSA - George Charitable Relief Fund - 914 955 4208	156,242	7,641	-	-
Cash on hand	-	-	20,650	19,740
Short-term deposits	-	-	-	32,381
Total	**219,109,384**	**232,703,138**	**218,901,017**	**232,496,590**

8. Property, plant and equipment

	2012			2011		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land and Buildings	611,273,252	(16,163,586)	595,109,666	615,402,079	(13,683,167)	601,718,912
Infrastructure	1,572,133,116	(430,518,813)	1,141,614,303	1,397,918,112	(336,880,133)	1,061,037,979
Community assets	177,633,884	(44,188,688)	133,445,196	168,749,544	(37,678,713)	131,070,831
Heritage assets	607,331	-	607,331	607,331	-	607,331
Other	106,731,870	(58,857,173)	47,874,697	98,134,799	(45,887,373)	52,247,426
Work in progress	32,471,783	-	32,471,783	20,418,545	-	20,418,545
Total	**2,500,851,236**	**(549,728,260)**	**1,951,122,976**	**2,301,230,410**	**(434,129,386)**	**1,867,101,024**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Book value of DMA assets received	Disposals	Transfer from / (to) inventory	WIP Transfers	Transfers from/(to) investment property	Depreciation	Total
Land and buildings	601,718,912	9,329,191	8,393,517	(10,194,190)	690,600	-	(12,603,000)	(2,225,364)	595,109,666
Infrastructure	1,061,037,979	78,852,946	86,603,530	(117,842)	-	990,211	-	(85,752,521)	1,141,614,303
Community assets	131,070,831	3,929,460	5,710,191	(870,224)	-	3,000	-	(6,398,062)	133,445,196
Other	52,247,426	4,568,060	3,034,891	(252,869)	-	-	-	(11,722,811)	47,874,697
Work in progress	20,418,545	13,046,449	-	-	-	(993,211)	-	-	32,471,783
Heritage assets	607,331	-	-	-	-	-	-	-	607,331
	1,867,101,024	**109,726,106**	**103,742,129**	**(11,435,125)**	**690,600**	**-**	**(12,603,000)**	**(106,098,758)**	**1,951,122,976**

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land and Buildings	656,518,774	-	(808,700)	-	(51,850,000)	(2,141,162)	601,718,912
Infrastructure	972,904,501	86,296,572	(437,681)	78,073,865	-	(75,799,278)	1,061,037,979
Community assets	129,810,443	6,520,345	-	685,710	-	(5,945,667)	131,070,831
Other	63,944,831	4,878,288	(158,645)	(6,293,825)	-	(10,123,223)	52,247,426
Work in progress	53,944,979	38,939,316	-	(72,465,750)	-	-	20,418,545
Leased vehicles and equipment	120,822	-	-	-	-	(120,822)	-
Heritage assets	607,331	-	-	-	-	-	607,331
	1,877,851,681	**136,634,521**	**(1,405,026)**	**-**	**(51,850,000)**	**(94,130,152)**	**1,867,101,024**

Borrowing costs capitalised and included in property, plant and equipment

Buildings	348,160	13,444
Infrastructure	193,923	3,247,233
Community assets	-	76,629
	542,083	**3,337,306**

The prior period balances were restated for prior period error adjustments, refer to note 39.8 and 39.9 for more detail.

	2012	2011

9. Intangible assets

	2012			2011		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	3,582,773	(1,780,702)	1,802,071	3,310,957	(1,212,175)	2,098,782

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	2,098,782	271,816	(568,527)	1,802,071

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	1,919,740	620,981	(441,939)	2,098,782

10. Investment property

	2012			2011		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	150,062,659	(144,484)	149,918,175	137,459,659	(139,658)	137,320,001

Reconciliation of investment property - 2012

	Opening balance	Transfer from / (to) property, plant and equipment	Depreciation	Total
Land and Buildings	137,320,001	12,603,000	(4,826)	149,918,175

Reconciliation of investment property - 2011

	Opening balance	Transfer from / (to) property, plant and equipment	Depreciation	Total
Land and Buildings	85,474,814	51,850,000	(4,813)	137,320,001

Notes to the Financial Statements

	2012	2011

10. Investment property (continued)

Other disclosures

Included in the surplus for the year are the following:

Total rental income from investment property	534,127	243,115
Total operating expenses arising from investment property generating rental revenue	(70,020)	(14,800)
Total operating expenses arising from investment property not generating rental revenue	-	-
	464,107	**228,315**

11. Loans and borrowings

Annuity loans	517,102,524	546,544,157
Other loans	3,774,473	4,858,878
	520,876,997	**551,403,035**
Non-current liabilities		
Annuity loans	484,455,446	517,095,289
Other loans	2,578,119	3,774,473
	487,033,565	**520,869,762**
Current liabilities		
Annuity loans	32,647,078	29,448,868
Other loans	1,196,354	1,084,405
	33,843,432	**30,533,273**
	520,876,997	**551,403,035**

Annuity loans
Annuity loans are repaid over periods varying from 3 years to 17 years (2011: 4 years to 18 years) and at interest rates varying from 6,75% to 12,665% (2011: 6,75% to 12,665%) per annum. Annuity loans are not secured.

Other loans
Other loans are repaid over periods varying from 1 years to 8 years (2011: 2 years to 9 years) and at interest rates varying from 7,835% to 12,00% per annum (2011: 7,835% to 12,00%). Other loans are not secured.

	2012	2011

12. Trade and other payables from exchange transactions

Trade payables	51,994,993	43,132,825
Payments received in advance	5,518,177	7,283,149
Retentions	11,352,458	18,389,240
Accrued bonus	6,050,038	5,542,566
Sundry Deposits	6,030,721	5,640,714
Other payables	11,411,449	13,218,528
Operating lease liability	5,628	13,324
	92,363,464	**93,220,346**

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within credit timeframe.

The management of the municipality is of the opinion that the carrying value of trade and other payables approximate their fair values. The fair value of trade and other payables was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

Operating leases with fixed escalation clauses are recognised on the straight-line basis. The operating lease liability was calculated as follows:

Operating lease liability		
Balance at beginning of year	13,324	32,012
Operating lease expenses recognised in the Statement of Financial Performance	(7,696)	(18,688)
	5,628	**13,324**

Refer to note 34 for information on operating lease commitments.

Accrued bonus		
Balance at beginning of the year	5,542,566	5,030,972
Provision transferred with DMA transaction - refer to note 40	199,435	-
Provision recognised during the year	308,037	511,594
	6,050,038	**5,542,566**

Notes to the Financial Statements

	2012	2011

13. Consumer deposits

Electricity and water	15,933,169	14,897,278
Guarantees		
Guarantees held in lieu of electricity and water deposits	7,543,794	7,176,495

Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

14. Employee benefits

Non-current liability		
Post-Retirement Medical Aid benefits liability	93,042,103	79,484,092
Ex-gratia pension benefits liability	2,783,411	2,609,187
Long service awards	13,320,814	10,427,364
	109,146,328	**92,520,643**
Current Liability		
Post-Retirement Medical Aid benefits liability	3,797,784	3,506,160
Ex-gratia pension benefits liability	255,749	263,076
Long service awards	1,047,426	992,870
Performance bonus	650,950	596,918
Staff leave	18,830,164	15,290,448
	24,582,073	**20,649,472**
Total Liability		
Post-Retirement Medical Aid benefits liability	96,839,887	82,990,252
Ex-gratia pension benefits liability	3,039,160	2,872,263
Long service awards	14,368,240	11,420,234
Performance bonus	650,950	596,918
Staff leave	18,830,164	15,290,448
	133,728,401	**113,170,115**

Post-retirement medical aid benefit liability

The municipality provides certain post-retirement medical benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2012. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

	2012	2011

14. Employee benefits (continued)

In-service members (Employees)	469	440
In-service (Employees) non-members	504	507
Continuation members (Retirees, widowers and orphans)	125	125
	1,098	**1,072**
In-service members	39,404,843	31,516,858
Continuation members	57,435,044	51,473,394
	96,839,887	**82,990,252**

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- Bonitas

- Global Health

- LA Health

- Hosmed

- Key Health

- Samwumed

The Current-service cost for the year ending 30 June 2013 is estimated to be R 3 331 550 (2012: R 2 683 271) whereas the interest cost for the ensuing year is estimated to be R 7 335 837 (2012: R 6 985 028).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

i) Rate of interest

Discount rate	7.72 %	8.59 %
Health care cost inflation rate	6.79 %	7.26 %
Net effective discount rate	0.88 %	1.25 %
Expected retirement age - females	62	62
Expected retirement age - males	62	62

ii) Mortality rates

Pre-retirement	SA 85 - 90 mortality table
Post-retirement	PA (90 - 1) ultimate mortality table

iii) Normal retirement age

The normal retirement age for employees of the municipality was assumed to be 65 years where data was unavailable.

	2012	2011

14. Employee benefits (continued)

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	96,839,887	82,990,252
Fair value plan assets	-	-
	96,839,887	**82,990,252**
Unrecognised past-service cost	-	-
Unrecognised actuarial gains / (losses	-	-
Present value of unfunded obligations	96,839,887	82,990,252
	96,839,887	**82,990,252**
Net Liability	96,839,887	82,990,252

Amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	2,683,271	2,148,916
Interest cost	6,985,028	6,430,686
Recognised actuarial losses / (gains)	5,334,988	6,153,644
Total included in staff cost (refer to note 24)	**15,003,287**	**14,733,246**

The movement in the defined benefit obligation over the year is as follows:

Balance at the beginning of the year	82,990,252	71,494,822
- Liability transferred with DMA transaction	2,352,508	-
- Recognised past service cost	-	-
- Current service cost	2,683,271	2,148,916
- Interest cost	6,985,028	6,430,686
- Actuarial losses / (gain)	5,334,988	6,153,644
- Benefits paid	(3,506,160)	(3,237,816)
Balance at the end of the year	**96,839,887**	**82,990,252**

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

Increase		
Effect on the current service cost and interest cost	11,418,100	10,062,700
Effect on the defined benefit obligation	112,600,000	95,901,000
Decrease		
Effect on the current service cost and interest cost	(8,266,500)	(7,385,300)
Effect on the defined benefit obligation	(84,039,000)	(72,435,000)

Ex-gratia pension benefit liability

The Ex-gratia pension benefit plan is a defined benefit plan. As at 30 June 2012, 23 pensioners were eligible for payments in terms of this plan.

The Municipality provides pension benefits to all employees that are not members of the Pension or Provident Funds, that have completed at least 10 years of service at the Council and have reached the age of 60. The benefit is calculated according to the average annual salary earned during the last year of service multiplied by number of years of service, divided by 60.

	2012	2011

14. Employee benefits (continued)

The current-service cost for the ensuing year is estimated to be Rnil (2012: Rnil), whereas the interest cost for the next year is estimated to be R 251 820 (2012: R 237 737).

Pensioners	23	25
Eligible employees	3	3
	26	**28**

The principal assumptions used for the purposes of the actuarial valuations were as follows:

i) Rate of interest

Discount rate	7.96 %	7.92 %
Net effective discount rate	3.24 %	2.69 %
Pension increase rate	4.57 %	5.09 %
Expected retirement age - females	62	62
Expected retirement age - males	62	62

ii) Mortality rates

Pre-retirement age	SA 85-90 mortality table
Post-retirement age	PA (90-1) ultimate mortality table

iii) Normal retirement age

The normal retirement age for employees of the municipality was assumed to be 65 years where data was unavailable.

Amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	3,039,160	2,872,263
Fair value of plan assets	-	-
	3,039,160	**2,872,263**
Unrecognised past-service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Present value of unfunded obligations	3,039,160	2,872,263
Net Liability	**3,039,160**	**2,872,263**

The amount recognised in the Statement of Financial Performance are as follows:

Current service cost	-	-
Interest cost	237,737	266,081
Recognised actuarial losses / (gains)	192,237	(172,874)
	429,974	**93,207**

	2012	2011

14. Employee benefits (continued)

The movement in the defined benefit obligation over the year is as follows:

Balance at beginning of year	2,872,263	3,072,634
- Recognised past service cost	-	-
- Current service cost	-	-
- Interest cost	237,737	266,081
- Actuarial losses / (gains)	192,236	(172,875)
- Benefits paid	(263,076)	(293,577)
	3,039,160	**2,872,263**

Long service awards

The municipality's obligation for Long Service Awards is a defined benefit plan. This plan is wholly unfunded as no contributions are made by the municipality into funds that are legally separate from the municipality and from which the employee benefits are paid (each subsequent financial year's expected payments of long service bonuses are budgeted for).

The municipality, in substance, underwrites the actuarial and investment risks associated with the plan. Consequently, the expense recognised for the defined benefit plan is the full additional liability accrued due to additional benefit entitlement. The municipality's net obligation in respect of the defined benefit long service allowances is the present value of the defined benefit obligation less the fair value of any plan assets, together with adjustments for unrecognised actuarial gains or losses and past service cost. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows of the benefits that will be paid to employees and using suitable interest rates.

The calculation is performed by registered actuaries using the projected unit credit method. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2012.

At year end, 1 001 (2011: 951) employees were eligible for Long-services Allowances. The future service cost for the ensuing year is estimated to be R 1 635 921 (2012: R 1 248 052), whereas the interest cost for the ensuing year is estimated to be R 906 140 (2012: R 855 422).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

i) Rate of interest

Discount rate	6.54 %	7.82 %
Benefit inflation rate	5.97 %	6.82 %
Net effective discount rate	0.54 %	1.45 %
Expected retirement age - females	62	62
Expected retirement age - males	62	62

ii) Mortality rates

Pre-retirement age	SA 85-90 mortality table
Post-retirement age	PA (90 - 1) ultimate mortality table

iii) Normal retirement age

The normal retirement age for employees of the municipality was assumed to be 65 years where data was unavailable.

	2012	2011

14. Employee benefits (continued)

Amounts recognised in the Statement of Financial Position are as follows:

Projected fund obligations	14,368,240	11,420,234
Plan assets	-	-
	14,368,240	**11,420,234**
Unrecognised past-service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Present value of unfunded obligations	14,368,240	11,420,234
Net Liability	**14,368,240**	**11,420,234**

Amount recognised in the Statement of Financial Performance are as follows:

Current service cost	1,248,052	1,123,137
Interest cost	855,422	679,379
Recognised actuarial losses / (gains)	1,381,833	1,102,286
Total included in staff cost (refer to note 24)	**3,485,307**	**2,904,802**
Balance at the beginning of the year	11,420,234	9,360,413
- Liability transferred with DMA transaction	455,569	-
- Current service cost	1,248,052	1,123,137
- Interest cost	855,422	679,379
- Recognised actuarial losses	1,381,833	1,102,286
- Benefits paid	(992,870)	(844,981)
	14,368,240	**11,420,234**

Multi-employer retirement benefit information

Employees belong to a variety of approved Pension and Provident Funds as described below. These schemes are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

The Cape Joint Pension Fund and Cape Joint Retirement Fund are defined benefit plans, whereas the Municipal Councillors Fund and the Providend Fund are defined contribution plans. All of these afore-mentioned funds are multi-employer plans. Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:

- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers
- One set of financial statements is compiled for each fund and financial statements are not drafted for each participating employer.
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer. The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R18 918 567 represents contributions payable to these plans by the municipality at rates specified in the rules of the plans.

	2012	2011

14. Employee benefits (continued)

Included in defined contribution plan information above, are the following plans which are a Multi-Employer Funds and are Defined Benefit Plans, but due to the fact that sufficient information are not available to enable the municipality to account for the plans as defined benefit plans, the municipality accounted for these plans as defined contribution plans:

Cape Joint Pension Fund

The Cape Joint Pension Fund's contribution rate payable is 9% by the members and 18% by Council. The intermin valuation of 30 June 2011 showed that the funding level is 98% and the financial statements indicated that the shortfall will be recovered from local authorities. The shortfall was apportioned between local authorities and requests was issued to them for payment.

A provision was raised by George Municipality during the 2010 financial year for a claim for a shortfall in the Fund's annual earnings. The municipality is liable for a pro rata portion of R8 016 092 and annual interest chargeable. Refer to note 15 for more detail on the provsion raised.

Cape Joint Retirement Fund

The contribution rate paid by the members 9% (2010: 9%) and Council 18% (2010: 18%) is sufficient to fund the benefits accruing from the fund in future. The last valuation performed for the year ended 30 June 2011 revealed that the fund was certified to be in a sound financial position as at 30 June 2011.

SALA Pension Fund:

At the valuation date of 1 July 2009 the SALA Pension Fund was 96% (1 July 2006: 110%) funded. The valuator indicated that although the fund was less than 100% funded at the valuation date, no additional action was required at that stage to rectify the situation. The valuator recommended that the employers continue to contribute at the current rate.

No furhter details could be provided for after the last valuation, being 1 July 2009.

The contribution rate paid by the members (8.60%) and Council (18.07%) is sufficient to fund the benefits accruing from the fund in the future.

The municipality is involved in a legal claim from SA Local Authorities Pension Fund to the value of R5 832 000 (2011: R5 832 915), resulting from a retrospective employer contribution rate increase. The claim was defended on grounds that the municipality is not liable and the matter is awaiting a trail date.

Municipal Councillors Pension Fund:

The actuarial valuator of the Pension Fund for councillors on 30 June 2009 stated that it is in a sound financial position.

The Municipal Councillors Pension Fund operates as a defined contribution scheme. The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

No further details could be provided for after the last valuation, being 30 June 2009.

South African Municipal Workers Union Pension Fund

The actuarial valuator of the Pension Fund for members on 30 June 2006 stated that it is in a sound financial position.

The contribution rate paid by the members (9.00%) and Council (18.00%) is sufficient to fund the benefits accruing from the fund in the future.

	2012	2011

15. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Cape Joint Pension fund	9,718,939	-	-	-	9,718,939
Clearing of alien vegetation	750,000	-	-	-	750,000
Provision relating to legal claims	1,394,549	-	(1,030,079)	(364,470)	-
Rehabilitation of landfill site	3,396,338	3,025,329	-	-	6,421,667
	15,259,826	**3,025,329**	**(1,030,079)**	**(364,470)**	**16,890,606**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Cape Joint Pension Fund	8,478,342	1,240,597	9,718,939
Clearing of alien vegetation	725,000	25,000	750,000
Provision relating to legal claims	364,470	1,030,079	1,394,549
Rehabilitation of landfill site	-	3,396,338	3,396,338
	9,567,812	**5,692,014**	**15,259,826**

Non-current liabilities	13,622,181	13,865,277
Current liabilities	3,268,425	1,394,549
	16,890,606	**15,259,826**

The provision relates to management's best estimate of the municipality's exposure to financial losses due to court cases instituted against it. The provision is expected to be utilised within the next year.

Cape Joint Pension Fund

In terms of the rules of the Cape Joint Pension Fund, approved and registered by the Financial Services board 6 January 2006, local authorities are liable to in certain circumstances make good a shortfall in the Fund's annual earnings. The fund's actuaries has calculated that there is a shortfall in the investment returns in respect of the defined benefits component of the Fund. The municipality is liable for a pro rata portion of R8 018 092 and annual interest chargeable. The Fund reserve the right to charge interest on the outstanding amount as disclosed in note 37.

An additional provision was not raised since the council consented to the extension of the prescribed period of the Fund's claim against the municipality so that the municipality can take part in the negotiations between the Cape Joint Pension Fund and various other municipalities with regards to the restructuring of the Fund's defined benefits section. Currently there is no indication what the outcome of the restructuring will be.

Clearing of alien vegetation

The municipality has an obligation to clear alien vegetation. The provision represents the present cost to clear the alien vegetation. This was based on the current clearing cost of R15 000 per hectare (2011: R15 000 per hectare) and the total size of land of 50 hectares to be cleared. There is no definite commitment on expenditure for the clearing of backlog alien vegetation.

	2012	2011

15. Provisions (continued)

Provisions relating to legal claims consist of the following:

An amount of R364 470 was awarded to Shirley Steyn in the 2010 financial year, but Council submitted a request to the court to set the matter aside. This matter was set aside by the court during the year and the provision was subsequently reversed.

Rehabilitation of landfill site

The increase in the provision for the current year consits of George landfill site rehabilitation of R 356,524 and Uniondale landfill site rehabilitation of R2,668,805.

George: Provision is made in terms of the municipality's licensing stipulations on the landfill waste sites, for the estimated cost of rehabilitating waste sites. The provision has been determined on the basis of a recent independent study. The cost factors derived from the study by a firm of consulting engineers have been applied and discounted to present value at the average borrowing cost of 10,5% (2011: 10,5%). The payment dates of total closure and rehabilitation have not been finalised, but are currently expected to be between 2013 and 2014.

Uniondale: The Uniondale waste site and the provision for the rehabilitation of the waste site was transferred from Eden District Municipality to George Municipality as part of the DMA transaction. Refer to note 40 for detail. Where provisions are acquired through a transfer of functions, the municipality is not required to measure these provisions for a period of three years from the effective date of the Standard or the effective date of the transfer of functions, whichever is later as allowed by Directive 3.

16. Unspent conditional grants and receipts

Unspent Grants	**41,994,057**	**30,178,410**
National Government Grants	12,007,839	10,325,616
Provincial Government Grants	29,584,102	19,453,615
District Municipality	402,116	202,116
Other - DBSA	-	197,063
Less: Unpaid Grants	**(21,654,896)**	**(25,047,826)**
National Government Grants	(5,927,598)	-
Provincial Government Grants	(15,223,488)	-
Other Grants	(503,810)	(25,047,826)
	20,339,161	**5,130,584**

The amount of unspent conditional grants and receipts is invested in ring-fenced investment accounts until utilised.

Unconditional Grants		
Equitable Share	72,201,000	59,340,462
Conditional Grants		
Grants and Donations	127,288,599	147,654,337
Subsidies	4,039,815	2,311,872
Total Government Grants and Subsidies	**203,529,414**	**209,306,671**
Government Grants and Subsidies - Capital	50,057,621	72,168,452
Government Grants and Subsidies - Operating	153,471,793	137,138,219
	203,529,414	**209,306,671**

The municipality does not expect any significant changes to the level of grants.

	2012	2011

16. Unspent conditional grants and receipts (continued)

Equitable share		
Opening balance	-	-
Grants received	72,201,000	59,340,462
Conditions met - Operating	(72,201,000)	(59,340,462)
Conditions met - Capital	-	-
Conditions still to be met	**-**	**-**

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

National: Finance Management Grant (FMG)		
Opening balance	1,611,501	2,802,301
Grants received	1,250,000	1,000,000
Conditions met - Operating	(2,637,680)	(1,515,899)
Conditions met - Capital	(185,681)	(674,901)
VAT income on grants transferred to Other Income	(38,140)	-
Conditions still to be met/(Grant expenditure to be recovered)	**-**	**1,611,501**

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

National: Municipal Systems Improvement Grant (MSIG)		
Opening balance	437,008	85,207
Grants received	790,000	750,000
Transfers	-	-
Conditions met - Operating	(1,092,378)	(398,199)
VAT income on grants transferred to Other Income	(134,630)	-
Conditions still to be met/(Grant expenditure to be recovered)	**-**	**437,008**

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.

National: Municipal Infrastructure Grant (MIG) - Disaster		
Opening balance	-	44,492
Grants received	-	-
Conditions met - Operating	-	-
Conditions met - Capital	-	(44,492)
Conditions still to be met/(Grant expenditure to be recovered)	**-**	**-**

Disaster Management Grant was used in mitigation of the flood damage experienced in 2007/2008. The conditions of the grant have been met.

National: Flood Damage Grant		
Opening balance	336,606	(1,187,838)
Grants received	-	3,000,000
Conditions met - Operating	(514,592)	(1,475,556)
Conditions met - Capital	-	-
Conditions still to be met/(Grant expenditure to be recovered)	**(177,986)**	**336,606**

	2012	2011

16. Unspent conditional grants and receipts (continued)

The Flood Damage Grant was used for repairs and rectification of damages to houses that were incurred due to flood damages.

National: Municipal Infrastructure Grant (MIG)		
Opening balance	1,236,558	(7,567,128)
Grants received	36,309,000	22,174,467
Conditions met - Operating	(1,670,000)	-
Conditions met - Capital	(32,837,353)	(13,370,781)
VAT income on grants transferred to Other Income	(4,596,750)	-
Conditions still to be met/(Grant expenditure to be recovered)	**(1,558,545)**	**1,236,558**

The grant was used to construct roads and storm water infrastructure, with the main focus on the historically disadvantaged areas.

National: Regional Bulk Infrastructure Grant (RBIG)		
Opening balance	6,071,676	-
Grants received	5,498,729	17,162,687
Conditions met - Operating	-	-
Conditions met - Capital	(163,539)	(8,000,000)
VAT income on grants transferred to other income	(16,502)	(3,091,011)
Conditions still to be met/(Grant expenditure to be recovered)	**11,390,364**	**6,071,676**

The grant was used to construct municipal bulk infrastructure for water and waste water.

National: Integrated National Electrification Grant		
Opening balance	223,749	-
Grants received	5,349,000	2,000,000
Transfer	(1,303,148)	-
Conditions met - Operating	-	-
Conditions met - Capital	(4,670,170)	(1,776,251)
VAT income on grants transferred to Other Income	(678,830)	-
Conditions still to be met/(Grant expenditure to be recovered)	**(1,079,399)**	**223,749**

The National Electrification Grant was used to upgrade the sub-station and electrification network.

National: Electricity Demand Side Management Grant		
Opening balance	408,517	2,957,843
Grants received	-	6,000,000
Conditions met - Operating	(3,087,882)	(3,653,872)
Conditions met - Capital	-	(4,895,454)
VAT income on grants transferred to Other Income	(432,303)	-
Conditions still to be met/(Grant expenditure to be recovered)	**(3,111,668)**	**408,517**

The National Electrification Grant was used to implement the Electricity Demand Side Management (EDSM) programme by providing capital subsidies to licensed distributors to address EDSM in residential dwellings, communities and commercial buildings in order to mitigate the risk of load shedding and supply interruptions.

Notes to the Financial Statements

	2012	2011

16. Unspent conditional grants and receipts (continued)

National: Municipal Drought Relief Grant		
Opening balance	-	(39,362,788)
Grants received	-	75,000,000
Conditions met - Operating	-	(2,582,590)
Conditions met - Capital	-	(32,012,998)
VAT income on grants transferred to Other Income	-	(1,041,624)
Conditions still to be met/(Grant expenditure to be recovered)	**-**	**-**

The Municipal Drought Relief Grant was used to finance the basic water supply infrastructure upgrading for drought affected areas.

National: Expanded Public Works Program Grant (EPWP)		
Opening balance	-	-
Grants received	2,541,000	-
Conditions met - Operating	(923,516)	-
Conditions met - Capital	(868,606)	-
VAT income on grants transferred to Other Income	(131,404)	-
Conditions still to be met/(Grant expenditure to be recovered)	**617,474**	**-**

The Expanded Public Works Program Grant was used to increase labour employment through infrastructure programmes that increase jobs creation and skills development.

Provincial: Mobility Strategy Grant		
Opening balance	7,053,560	4,977,613
Grants received	2,000,000	9,900,000
Conditions met - Operating	-	-
Conditions met - Capital	(6,318,426)	(7,824,053)
VAT income on grants transferred to Other Income	(854,261)	-
Conditions still to be met/(Grant expenditure to be recovered)	**1,880,873**	**7,053,560**

The Mobility Strategy Grant was used for plans, facilities, roads and operational systems that will assist with the movement of people in the public transport system, including provision for persons with special needs.

Provinsial: Financial Management Support Grant		
Opening balance	-	-
Grants received	200,000	-
Conditions met - Operating	(34,348)	-
Conditions met - Capital	-	-
VAT income on grants transferred to Other Income	(4,809)	-
	160,843	**-**

The Financial Management Support Grant is given by the Western Cape Provincial Treasury to provide financial assistance to municipalities to improve overall financial governance within municipalities inclusive of optimising and administration of revenue, improving credibility and responsiveness of municipal budgets, improving of municipal audit outsomes and addressing institutional challanges.

	2012	2011

16. Unspent conditional grants and receipts (continued)

Provinsial: Integrated Public Transport Network		
Opening balance	-	-
Grants received	16,000,000	-
Interest on deposit	247,671	-
Conditions met - Operating	-	-
Conditions met - Capital	-	-
	16,247,671	**-**

The Integrated Public Transport Network programme is there to assist municipalities in upgrading and transformation of the rad-based public transport sector.

Provincial: Housing Grants		
Opening balance	(13,310,591)	(11,464,544)
Grants received	73,390,618	64,591,709
Transfers	6,287,037	-
Conditions met - Operating	(65,875,298)	(63,438,716)
Conditions met - Capital	(4,867,000)	(2,999,040)
Conditions still to be met/(Grant expenditure to be recovered)	**(4,375,234)**	**(13,310,591)**

The Housing grants were utilised for the development of erven, erection of top structures and basic sanitation services.

Provincial: Other Provincial Grants		
Opening balance	662,820	429,107
Grants received	1,680,416	2,183,000
Conditions met - Operating	(1,717,857)	(1,921,052)
Conditions met - Capital	(146,847)	(28,235)
VAT income on grants transferred to Other Income	(32,073)	-
Conditions still to be met/(Grant expenditure to be recovered)	**446,459**	**662,820**

Various grants are received from Provincial Government for sanitation, libraries, transport, disaster relief etc; with the main grants being: Community Development Workers, Library services, Local Government Master Planning, Maintenance of proclaimed roads and Spatial Development Framework.

District: Eden District Municipality Grants		
Opening balance	202,116	202,116
Grants received	-	500,000
Transfer	200,000	-
Conditions met - Operating	-	(500,000)
Conditions met - Capital	-	-
Conditions still to be met/(Grant expenditure to be recovered)	**402,116**	**202,116**

The Eden grants comprise amounts received and to be utilised for the refuse transfer station and storm water master planning.

Notes to the Financial Statements

	2012	2011
16. Unspent conditional grants and receipts (continued)		
Other Grants		
Opening balance	197,063	-
Grants received	3,574,135	3,051,184
Transfer	(557,765)	-
Conditions met - Operating	(3,717,243)	(2,311,873)
Conditions met - Capital	-	(542,248)
Conditions still to be met/(Grant expenditure to be recovered)	**(503,810)**	**197,063**
Total Grants		
Opening balance	5,130,584	(48,083,618)
Grants received	220,783,898	266,653,506
Transfers	4,626,124	-
Interest received	247,671	-
Conditions met - Operating	(153,471,794)	(141,270,852)
Conditions met - Capital	(50,057,622)	(72,168,452)
VAT income on grants transferred to Other Income	(6,919,702)	-
Conditions still to be met/(Grant expenditure to be recovered)	**20,339,159**	**5,130,584**

The prior period balances were restated for prior period error adjustments, refer to note 39 for more detail.

17. Housing development fund

Unappropriated surplus	20,627,951	17,327,418
Loans extinguished by Government on 1 April 1998	53,383,243	53,383,243
	74,011,194	**70,710,661**

The housing development fund is represented by the following assets and liabilities

Housing selling scheme loans	2,477,179	3,766,902
Inventory	339,041	373,395
Trade and other receivables from exchange transactions	1,291,305	1,483,572
Other receivables from non-exchange transactions (non-cash)	4,187,273	15,439,272
Short term investments	65,716,396	49,647,520
Total Housing Development Fund Assets and Liabilities	**74,011,194**	**70,710,661**

Notes to the Financial Statements

	2012	2011

18. Property rates

Rates received

Commercial	34,669,817	26,366,191
Housing Schemes	42,019	43,754
Industrial	7,524,484	7,021,909
Other (Flat rate)	53,072	51,652
Residential	120,978,145	117,915,906
State (Domestic)	255,351	184,406
State (Erven and school - business tariff)	6,313,106	5,851,384
Less: Impermissible rates	(5,940,404)	(4,004,248)
Less: Income forgone	(32,435,828)	(30,897,164)
Less: Equitable Shares utilised	(3,671,346)	(3,652,964)
	127,788,416	**118,880,826**

Valuations

Commercial	6,735,044,427	5,412,890,892
Industrial	1,457,624,320	1,441,574,320
Municipal (non-taxable valuations)	1,440,138,453	1,378,444,640
Residential	26,799,157,870	27,014,468,658
State (Domestic)	42,280,000	42,295,000
State (Erven and schools)	1,191,965,471	1,201,269,371
	37,666,210,541	**36,490,942,881**

Assessment rates are levied on the total value of property, which valuation must be performed every four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations, consolidations and subdivisions.

Uniform rates of 0,4622 (2011: 0,4360) cent in the Rand on total valuations were applied to determine assessment rates. Business tariffs are levied at 0.5136 (2011: 0.4871) for Commercial, Industrial, State Erven and Schools, and this were applicable for all Areas.

A rebate of 20% (2011: 20%) was allowed on residential properties, excluding residential properties in the rural areas, whilst rebates of 10% - 40% (2011: 10% - 40%) were applied to pensioners, based on the annual income of the ratepayer. A rebate of 80,00% (2011: 80,00%) was allowed on residential properties for rural areas. A discount of 20% was granted to the State.

Rates are levied annually on property owners and are payable by 30 September. Owners are allowed to pay the annual assessment in 12 monthly instalments, which are payable on the 15th of each month. Interest is levied at the prime rate plus 1% on outstanding rates amounts.

The last General Valuation came into effect on 1 July 2008.

A General Valuation was performed during the year and rates assessments from 1 July 2012 will be based on this new valuation.

	2012	2011

19. Government grants and subsidies

Equitable share	72,201,000	59,340,462
National: Finance Management Grant (FMG)	2,823,361	2,190,800
National: Municipal Systems Improvement Grant (MSIG)	1,092,378	398,199
National: Municipal Infrastructure Grant (MIG) - Disaster	-	44,492
National: Flood Damage Grant	514,592	1,475,556
National: Municipal Infratructure Grant (MIG)	34,507,353	13,370,781
National; Regional Bulk Infrastructure Grant (RBIG)	163,539	8,000,000
National: Integrated National Electrification Grant	4,670,170	1,776,251
National: Electricity Demand Side Management Grant	3,087,882	8,549,326
National: Municipal Drought Relief Grant	-	34,711,957
National: Expanded Public Works Program Grant (EPWP)	1,792,122	-
Provincial: Mobility Strategy Grant	6,318,425	7,824,053
Provincial: Financial Management Support Grant	34,348	-
Provincial: Housing Grants	70,742,298	66,321,387
Provincial: Other Provincial Grants	1,864,703	1,949,287
District: Eden District Municipality Grants	-	500,000
Other grants	3,717,243	2,854,120
	203,529,414	**209,306,671**

20. Service charges

Fire Station - Sale of Water	331,094	12,507
Refuse removal	35,101,413	30,484,078
Sale of electricity	373,785,442	310,240,246
Sale of water	66,392,721	67,305,558
Sewerage and sanitation charges	52,175,772	46,462,330
	527,786,442	**454,504,719**

The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to the approved tariff.

The prior period balances were restated for prior period error adjustments, refer to note 39 for more detail.

21. Rental revenue

Buildings	812,541	627,455
Halls	448,501	375,709
Other facilities	841,634	825,495
	2,102,676	**1,828,659**

	2012	2011

22. Other income

Application fees for second dwelling	68,148	179,325
Building plan fees and related income	2,223,586	4,028,222
Contributions received for capital projects	5,226,742	5,627,287
Sundry income	8,096,497	6,176,024
Sale of erven	6,473,752	5,356,462
VAT income from grants	6,919,703	4,132,633
	29,008,428	**25,499,953**

The amounts disclosed above for Other Income are in respect of services rendered, other than described in notes 18 - 21, which are billed to or paid for by the users of the services are required according to approved tariffs.

The prior period balances were restated for prior period error adjustments, refer to note 39 for more detail.

23. Investment revenue

Interest revenue		
Interest income on loans and receivables		
Art 185(a) arrangements	84,874	97,346
Land sales	11,071	22,392
Outstanding trade receivables	3,111,893	3,579,887
Selling schemes	358,004	586,395
Victoria Bay loans	7,385	10,217
External investments		
Interest income on bank deposits	10,971,597	11,555,573
Interest income on short term investments	3,743,304	3,217,611
	18,288,128	**19,069,421**

24. Personnel costs

Basic	152,457,889	142,260,914
Housing benefits and allowances	1,327,516	1,270,805
Long-service awards	1,382,942	1,039,279
Medical aid - company contributions	9,839,663	8,655,116
Other payroll levies	3,228,115	2,901,619
Overtime payments	16,665,946	13,774,965
Employee benefit obligations	18,918,567	17,731,255
- Current service cost	3,931,323	3,272,053
- Interest cost	8,078,187	7,376,146
- Actuarial losses recognised	6,909,057	7,083,056
Travel, motor car, accommodation, subsistence and other allowances	13,390,847	12,113,945
UIF	1,325,390	1,284,013
Pension	22,384,543	20,352,858
WCA	1,647,806	1,201,364
Acting allowances	1,446,156	2,571,184
SDL	1,904,914	1,688,152
Ad hoc trips	837,862	897,639
Subsistence and Travelling Allowance	766,085	-
Termination benefits	1,355,194	1,030,079
	248,879,435	**228,773,187**

	2012	2011

24. Personnel costs (continued)

Remuneration of Municipal Manager/Acting Municipal Manager

Annual Remuneration	570,000	836,118
Car Allowance	-	11,500
Performance Bonus	69,825	-
Contributions to UIF, Medical and Pension Funds	749	1,373
Acting expenses	572,400	1,252,169
Accumulated Leave	-	202,203
	1,212,974	**2,303,363**

Remuneration of Director Financial Services/Acting Director Financial Services

Annual Remuneration	68,742	756,820
Car Allowance	-	15,000
Performance Bonus	55,580	63,600
Contributions to UIF, Medical and Pension Funds	8,558	39,093
Acting expenses	464,464	513,911
	597,344	**1,388,424**

Remuneration of Assistant Municipal Manager

Acting expenses	-	66,647
	-	**66,647**

Remuneration of Director Corporate Services/Acting Director Corporate Services

Annual Remuneration	-	402,537
Acting expense	93,818	-
	93,818	**402,537**

Remuneration of Director Community Safety Services/Acting Director Community Safety Services

Annual Remuneration	-	251,619
Car Allowance	-	53,644
Contributions to UIF, Medical and Pension Funds	-	64,858
Acting expenses	244,688	233,806
Accumulated Leave	-	104,953
	244,688	**708,880**

Remuneration of Director Planning and Housing

Annual Remuneration	627,732	588,878
Car Allowance	96,000	96,000
Performance Bonus	99,725	37,791
Contributions to UIF, Medical and Pension Funds	159,336	147,663
Acting expenses	2,765	32,248
	985,558	**902,580**

	2012	2011

24. Personnel costs (continued)

Remuneration of Director Environmental Affairs

Annual Remuneration	596,546	557,183
Car Allowance	139,200	139,200
Performance Bonus	99,725	52,908
Contributions to UIF, Medical and Pension Funds	147,322	136,158
Acting expenses	37,328	35,201
	1,020,121	**920,650**

Remuneration of Director Civil Engineering Services

Annual Remuneration	620,245	592,139
Car Allowance	132,000	132,000
Performance Bonuses	111,496	48,102
Contributions to UIF, Medical and Pension Funds	142,079	135,022
Acting expenses	24,907	2,870
	1,030,727	**910,133**

Remuneration of Director Electro- Technical Services

Annual Remuneration	562,759	532,314
Car Allowance	144,000	144,000
Performance Bonuses	97,029	37,791
Contributions to UIF, Medical and Pension Funds	136,466	133,759
Acting expenses	5,786	11,056
	946,040	**858,920**

25. Remuneration of councillors

Executive Mayor	394,583	441,174
Deputy Executive Mayor	331,483	267,666
Speaker	381,206	325,876
Chief Whip	204,353	-
Mayoral Committee Members	3,038,757	2,229,064
Councillors	4,807,800	3,560,406
Councillors' pension contribution	685,027	729,300
Travelling expenses	3,232,381	2,538,158
Cellphone expenses	684,437	515,858
Councillors' contribution to medical aid	108,460	83,792
	13,868,487	**10,691,294**

In-kind benefits

The Councillors occupying the positions of Executive Mayor, Deputy Executive Mayor, Speaker, Chief Whip and Executive Mayor Committee Members of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

The Executive Mayor and Deputy Executive Mayor have use of a Council owned vehicle for official duties.

Notes to the Financial Statements

	2012	2011
26. Depreciation and amortisation		
Property, plant and equipment	106,098,758	94,130,154
Intangible assets	568,527	441,939
Investment property	4,826	4,813
	106,672,111	**94,576,906**
27. Impairment losses		
Impairments		
Impairment of trade and other receivables	19,557,889	27,523,970
28. Finance costs		
Loans and borrowings	56,860,483	53,170,188
Provision for rehabilitation of landfill site	356,524	-
	57,217,007	**53,170,188**

The weighted average capitalisation rate on funds borrowed generally is 11.01% per annum (2011: 10.47%).

29. Bulk purchases		
Electricity	244,403,075	192,921,333

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom. No water is purchased.

30. Contracted services		
Housing projects	65,875,298	63,322,346
Cutting of grass	2,740,696	2,812,907
Transfer station	4,076,929	3,473,492
Internal audit services	2,672,822	2,546,373
Other Contractors	6,007,302	6,030,312
Traffic cameras	4,915,773	4,165,392
Refuse recycling	2,085,932	2,120,460
Pre-paid services	11,873,504	10,155,613
	100,248,256	**94,626,895**
31. Grants and subsidies paid		
Other subsidies		
Bursary Grants	138,318	251,865
Gifts	-	205,000
International Sevens Rugby	-	3,559,523
Merit Grants	32,000	31,200
Social Services Projects	-	20,000
SPCA - Small Animal Pound	1,018,056	1,056,786
	1,188,374	**5,124,374**

The Bursary grants are in respect of providing bursaries.

Notes to the Financial Statements

	2012	2011

31. Grants and subsidies paid (continued)

Merit Grants received from the Extended Public Works Programme were utilised to create work and job opportunities in the community.

SPCA Grant is available on application after consulting with the Acting Municipal Manager on the merit of such an application.

32. General expenses

Advertising	959,792	952,571
Auditors remuneration (External)	3,906,646	3,332,981
Bank charges	1,130,629	906,370
Chemicals	9,317,518	7,249,274
Clearing of alien vegetation	-	25,000
Consulting and professional fees	172,724	166,583
Energy Costs	5,835,474	4,933,186
Flood Damage	514,592	1,475,556
General valuation	3,291,567	-
IT expenses	235,536	160,882
Insurance	1,939,301	1,867,312
Lease rentals on operating lease	1,821,895	1,834,825
Legal fees	1,406,380	686,320
Membership fees	1,690,142	1,316,605
Motor vehicle expenses	708,940	500,175
Net Realisable Value written-down for inventory (Note 2)	47,697	9,228
Other general expenses	22,014,077	25,870,617
Planning cost	1,564,780	1,581,331
Postage	1,825,237	1,751,258
Printing and stationery	1,733,647	1,934,980
Project costs	2,472,429	3,445,110
Refuse	7,949,198	8,079,921
Security	4,209,468	3,288,425
Telephone and fax	1,571,355	1,631,028
Training	176,888	1,137,959
Travel - local	454,816	449,046
Uniforms	1,010,017	815,555
	77,960,745	**75,402,098**

The figures for the prior period have been adjusted with bulk purchases and personel cost that were incorrectly allocated to other expenses, refer to the note on comparative figures (note 39) for more detail with regards to this change. The remainder of the other expenses have been given in more detail than in the previous year.

Notes to the Financial Statements

	2012	2011
33. Cash generated from operations		
(Deficit) surplus	(6,331,828)	5,557,833
Adjustments for:		
Depreciation and amortisation	106,672,111	94,576,906
Loss on sale of non-current assets and disposal groups	11,285,936	440,326
Non-cash items from DMA transaction	(73,199)	-
Fair value adjustments of inventory	47,697	9,228
Finance costs	57,217,007	51,759,061
Interest income	(18,288,128)	(19,079,501)
Bad debts written off	(22,837,387)	(23,364,456)
Movements in operating lease assets due to straightlining	(1,978)	(35,350)
Movement in bonus provision	507,472	511,594
Movements in provisions	2,660,859	2,618,331
Provisions utilised during the year	(1,030,079)	-
Impairment losses	19,557,889	27,523,970
Movement in Employee benefit assets and liabilities - Medical Aid, Pension and Long Service Awards	16,964,538	17,731,255
Movement in Employee benefit assets and liabilities - Staff leave	3,539,716	2,401,530
Movement in Employee benefit assets and liabilities - Performance bonuses	54,032	(190,789)
Benefits paid regarding employee benefits	(4,762,106)	(4,376,374)
Grants received	220,783,898	266,653,506
Grants paid	(203,529,416)	(213,439,305)
Grants non cash movements	(4,626,124)	-
Changes in working capital:		
Inventories	(1,576,889)	(1,162,293)
Trade receivables from exchange and non-exhange transactions	(9,048,250)	(9,469,520)
Other receivables from non-exchange transactions	(3,442,434)	883,642
Consumer deposits	1,035,891	1,485,498
Trade and other payables from exchange transactions	(856,882)	9,346,845
VAT	1,543,167	4,508,678
	165,465,513	**214,890,615**

Notes to the Financial Statements

	2012	2011
34. Commitments		
Authorised capital expenditure		
Approved and contracted for:		
• Infrastructure	57,485,000	84,480,240
• Community	-	3,670,000
• Other	1,500,000	-
	58,985,000	**88,150,240**
Approved but not yet contracted for:		
• Infrastructure	67,987,493	65,027,760
• Community	7,611,200	4,904,000
• Other	16,338,340	4,830,000
	91,937,033	**74,761,760**
Total Capital Commitments	**150,922,033**	**162,912,000**
These expenses will be financed from:		
• External loans	11,350,000	53,770,000
• Capital replacement reserve	48,125,700	34,984,000
• Government grants	91,446,333	70,158,000
• Other resources	-	4,000,000
	150,922,033	**162,912,000**
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	364,117	478,364
- in second to fifth year inclusive	252,771	421,119
	616,888	**899,483**
The total operating lease liability (refer to note 12)	5,628	13,324

Operating leases relate to property, plant and equipment with lease terms not longer than 5 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

	2012	2011

35. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Amortised Cost	Total
Long-term Receivables		
Housing Scheme Loans	560,221	560,221
Sale of Erven Loans	143,829	143,829
Loans to Other Organisations	356,797	356,797
Actaris Meter Debt	36,812	36,812
Trade receivables from exchange transactions		
Service Debtors	64,516,723	64,516,723
Housing Rentals	234,652	234,652
Housing Loan Instalments	711,438	711,438
Other Debtors	4,949,438	4,949,438
Trade receivables from non-exchange transactions		
Rates	16,886,123	16,886,123
Other receivables		
Sundry and other receivables	33,959,591	33,959,591
Current Portion of Long-term Receivables		
Housing Scheme Loans	147,992	147,992
Sale of Erven Loans	12,098	12,098
Loans to Other Organisations	99,433	99,433
Actaris Meter Debt	73,123	73,123
Bank Balances and Cash		
Cash on Hand	20,650	20,650
Bank Balance	218,880,367	218,880,367
	341,589,287	**341,589,287**

Notes to the Financial Statements

	2012	2011

35. Financial assets by category (continued)

2011

	Amortised Cost	Total
Long-term Receivables		
Housing Scheme Loans	757,627	757,627
Sale of Erven Loans	142,770	142,770
Loan to Other Organisations	456,230	456,230
Trade receivables from exchange transactions		
Service Debtors	51,583,179	51,583,179
Housing Rentals	224,346	224,346
Housing Loan Instalments	882,114	882,114
Other Debtors	3,606,964	3,606,964
Trade receivables from non-exchange transactions		
Rates	21,953,521	21,953,521
Other receivables		
Sundry and other receivables	30,511,438	30,511,438
Current Portion of Long-term Receivables		
Housing Scheme Loans	181,349	181,349
Sale of Erven Loans	19,460	19,460
Loans to Other Organisations	84,778	84,778
Actaris Meter Debt	30,656	30,656
Bank Balances and Cash		
Cash on Hand	19,740	19,740
Bank Balance	232,444,469	232,444,469
Short-term Deposit	32,381	32,381
	342,931,022	**342,931,022**

	2012	2011

36. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial liabilities at amortised cost	Total
Long-term liabilities		
Annuity loans	484,455,446	484,455,446
Other loans	2,578,119	2,578,119
Consumer Deposits		
Electricity and Water	15,933,169	15,933,169
Payables		
Trade payables	80,302,987	80,302,987
Current portion of long-term liabilities		
Annuity loans	32,647,078	32,647,078
Other loans	1,196,354	1,196,354
	617,113,153	**617,113,153**

2011

	Financial liabilities at amortised cost	Total
Long-term liabilities		
Annuity loans	517,095,289	517,095,289
Other loans	3,774,473	3,774,473
Consumer Deposits		
Electricity and Water	14,897,278	14,897,278
Payables		
Trade Payables	82,023,741	82,023,741
Current portion of long-term liabilities		
Annuity loans	29,448,868	29,448,868
Other loans	1,084,405	1,084,405
	648,324,054	**648,324,054**

	2012	2011

37. Contingent liabilities

The municipality issued bank guarantees in respect of building society and commercial bank housing loans to municipal officials in favour of the lending institutions

Guarantees	-	32,381
Breach of contract		
Panasonic Business Systems Southern Cape	85,551	85,551
Compensation for damages		
James & 10 others	1,748,000	1,748,000
MTO Forestry	1,021,000	972,315
Golden Rewards 1357 CC	294,274	294,274
Lagoon Beach Development (third party claim)	8,700,000	-
	11,848,825	**3,100,140**

The claims from James & 10 others, MTO Forestry and Lagoon Beach Development was handed to the municipality's insurers.

The municipality is involved in a legal claim from SA Local Authorities Pension Fund to the value of R5 832 000, resulting from a retrospective employer contribution rate increase. The claim was defended on grounds that the municipality is not liable and the matter is awaiting a trial date.

The municipality is involved in a legal claim of R108 000 from JE & JA Maree. The claim is for the repayment municipal rates, taxes and costs pursuant to expropriation of portion 29 of the farm 197, Sandkraal. The matter is currently being disputed by the municipality.

The Trade Union, IMATU, contested the implementation of a wage curve agreement in the Labour Court and the court ruled in favour of IMATU. The Employers Organisation, SALGA, resolved to take the ruling of the Labour Court on review. The effect of the ruling by the Labourt Court is a general 2% increase in remuneration as from October 2009.

Included in the municipality's provisions is an amount of R9,718,939 being the shortfall in the Cape Joint Pension Fund and interest on the shortfall up to 30 June 2011. An additional provision was not raised since the council consented to the extension of the prescribed period of the Fund's claim against the municipality so that the municipality can take part in the negotiations between the Cape Joint Pension Fund and various other municipalities with regards to the restructuring of the Fund's defined benefits section. Currently there is no indication what the outcome of the restructuring will be. The Fund reserve the right to charge interest on the shortfall and the interest for the year ended 30 June 2012 could amount to R1,506,435.

Notes to the Financial Statements

	2012	2011

38. Related parties

Relationships

Councillor	
- Ward 1	BA Fortuin
- Ward 2	C Neethling
- Ward 3	EP de Villiers
- Ward 4	LD van Wyk
- Ward 5	LBC Esau
- Ward 6	JJ Muller
- Ward 7	FZ Ntozini
- Ward 8	C Standers
- Ward 9	T Teyisi
- Ward 10	MD Gingcana
- Ward 11	NF Kamte
- Ward 12	GN Sixolo
- Ward 13	B Salmani
- Ward 14	CM Papah
- Ward 15	FS Guga
- Ward 16	HJ Jones
- Ward 17	D Maritz
- Ward 18	GC Niehaus
- Ward 19	IC Kritzinger
- Ward 20	M Draghoender
- Ward 21	JS Thanda
- Ward 22	PH de Swardt
- Ward 23	GJ Stander
- Ward 24	AM Wildeman
- Ward 25	MEF Kleynhans
Proportional	SJ Bezuidenhout
Proportional	C Bob
Proportional	TJ Botha
Proportional	BM Cornelius
Proportional	NNE Dlephu
Proportional	J du Toit
Proportional	T Fortuin
Proportional	V Gericke
Proportional	F Harris
Proportional	WT Harris
Proportional	LS Hayward
Proportional	NV Kom
Proportional	PB Komani
Proportional	PS Leholo
Proportional	G Macclune
Proportional	SM Mekana
Proportional	B Petrus
Proportional	LN Qupe
Proportional	GMY Sihoyiya
Proportional	I Stemela
Proportional	PJ van der Hoven
Proportional	AJ van Zyl
Proportional	CT Williams
Proportional	W Witbooi

	2012	2011

38. Related parties (continued)

Directors	
Directorate Financial Services	MM Cupido (Acting)
Directorate Civil Engineering Services	HL Basson
Directorate Environmental Services	AJ Smith
Directorate Community Services	BJ Nelson (Acting)
Directorate Planning & Housing	SB Erasmus
Directorate Electrotechnical Services	KD Grünewald
Directorate Corporate & Social Services	SE James (Acting)
Municipal Manager	T Botha

Related party transactions

Related transactions for the year ended 30 June 2012

		Rates	Services	Total	Outstanding balance
Municipal manager & Councillors					
Executive mayor	C Standers	758	4,410	5,168	(669)
Deputy executive mayor	D Maritz	-	3,678	3,678	(241)
Speaker	M Draghoender	906	3,773	4,679	27
Ex-Co Memb.: Electrotechnical Services	WT Harris	351	4,821	5,172	(103)
Ex-Co Memb.: Corporate & HR	I Stemela	37	3,308	3,345	(436)
Ex-Co Memb.: Civil Engineering	JJ Muller	-	369	369	(429)
Ex-Co Memb.: Financial Services	LD van Wyk	7,118	5,587	12,705	(184)
Ex-Co Memb: Community Safety	IC Kritzinger	1,394	2,986	4,380	31
Ex-Co Memb.: Sport and Recreation	BA Fortuin	1,639	7,310	8,949	4,650
Ex-Co Memb.: Planning and housing	GJ Stander	9,928	4,832	14,760	1,247
Councillor: Ward 2	C Neethling	5,107	7,002	12,109	1,177
Councillor: Ward 3	EP De Villiers	5,380	5,660	11,040	938
Councillor: Ward 5	LBC Esau	2,940	4,449	7,389	(502)
Councillor: Ward 9	T Teyisi	-	5,771	5,771	(106)
Councillor: Ward 11	NF Kamte	-	3,986	3,986	(237)
Councillor: Ward 12	GN Sixolo	-	3,306	3,306	(467)
Councillor: Ward 14	CM Papah	-	5,694	5,694	1,800
Councillor: Ward 15	FS Guga	-	3,940	3,940	12
Councillor: Ward 18	GC Niehaus	11,116	20,961	32,077	18,983
Councillor: Ward 21	JS Thanda	-	2,619	2,619	(4)
Councillor: Ward 22	PH de Swardt	7,636	3,485	11,121	885
Councillor: Ward 24	AM Wildeman	214	2,966	3,180	(353)
Councillor: PR	SJ Bezuidenhout	5,602	4,128	9,730	(2,854)
Councillor: PR	C Bob	629	5,313	5,942	-
Councillor: PR	TJ Botha	7,377	5,717	13,094	985
Councillor: PR	BM Cornelius	943	4,390	5,333	(25)
Councillor: PR	T Fortuin	-	3,779	3,779	(295)
Councillor: PR	F Harris	55	4,127	4,182	(458)
Councillor: PR	LS Hayward	7,636	5,292	12,928	(1,658)
Councillor: PR	NV Kom	-	3,335	3,335	(505)
Councillor: PR	PB Komani	-	3,607	3,607	(281)
Councillor: PR	PS Leholo	-	2,619	2,619	(218)

				2012	2011
38. Related parties (continued)					
Councillor: PR	G Macclune	42	2,275	2,317	(222)
Councillor: PR	SM Mekana	-	1,512	1,512	310
Councillor: PR	B Petrus	-	3,857	3,857	98
Councillor: PR	GMY Sihoyiya	-	3,308	3,308	(37)
Councillor: PR	PJ van der Hoven	5,084	7,138	12,222	53
Councillor: PR	AJ van Zyl	7,650	3,576	11,226	993
Councillor: PR	CT Williams	-	4,103	4,103	(61)
Section 56 and 57 Personnel					
Municipal Manager	T Botha	-	230	230	(20)
Director: Financial Services - Acting	MM Cupido	2,163	5,461	7,624	(763)
Director: Community Safety	BJ Nelson	3,864	5,682	9,546	(469)
Director: Electrotechnical Services	KD Grünewald	4,738	5,438	10,176	(2,634)
Director: Civil Engineering Services	HL Basson	8,065	9,220	17,285	1,482
Director: Planning and Housing	SB Erasmus	-	1,527	1,527	54
Director: Enviromental Affairs	AJ Smith	5,787	4,181	9,968	40
		114,159	**210,728**	**324,887**	**19,534**

Related transactions for the year ended 30 June 2011

		Rates	Services	Total	Outstanding balance
Municipal manager & Councillors					
Executive mayor	C Standers	715	4,105	4,820	-
Deputy Mayor	D Maritz	-	2,582	2,582	-
Ex-Co Memb.: Environmental Affairs	I Stemela	35	2,964	2,999	249
Ex-Co Memb.: Electrotechnical Services	WT Harris	3,022	1,548	4,570	-
Ex-Co Memb.: Corporate & HR	BM Cornelius	889	4,045	4,934	-
Ex-Co Memb.: Civil Engineering	JJ Muller	-	348	348	-
Ex-Co Memb.: Financial Services	LD Van Wyk	9,158	1,159	10,317	370
Ex-Co Memb: Community Safety	IC Kritzinger	3,157	5,932	9,089	-
Ex-Co Memb.: Sport and Recreation	BA Fortuin	1,546	3,464	5,010	417
Councillor: Ward 2	C Neethling	4,818	6,226	11,044	990
Councillor: Ward 3	EP De Villiers	5,075	4,856	9,931	799
Councillor: Ward 4	LBC Esau	2,773	4,307	7,080	-
Councillor: Ward 11	NF Kamte	-	4,872	4,872	-
Councillor: Ward 12	GN Sixolo	-	2,104	2,104	-
Councillor: Ward 15	FS Guga	-	3,961	3,961	-
Councillor Ward 18	GC Niehaus	10,485	19,938	30,423	1,067
Councillor: Ward 21	JS Thanda	-	1,735	1,735	-
Councillor: Ward 22	PH de Swardt	7,208	3,471	10,679	-
Councillor: Ward 23	GJ Stander	9,365	5,171	14,536	1,165
Councillor: PR	SJ Bezuidenhout	5,284	3,843	9,127	-
Councillor: PR	C Bob	1,203	4,187	5,390	-
Councillor: PR	TJ Botha	6,958	6,298	13,256	1,089
Councillor: PR	T Fortuin	-	4,095	4,095	292
Councillor: PR	F Harris	52	1,604	1,656	-
Councillor: PR	LS Hayward	7,203	3,890	11,093	13

Notes to the Financial Statements

				2012	2011
38. Related parties (continued)					
Councillor: PR	NV Kom	-	2,010	2,010	-
Councillor: PR	PB Komani	-	3,404	3,404	-
Councillor: PR	PS Leholo	-	2,314	2,314	-
Councillor: PR	SM Mekana	-	3,373	3,373	-
Councillor: PR	B Petrus	-	2,693	2,693	277
Councillor: PR	GMY Sihoyiya	-	2,963	2,963	123
Councillor: PR	PJ van der Hoven	4,796	4,776	9,572	-
Councillor: PR	AJ van Zyl	9,709	1,153	10,862	73
Councillor: PR	CT Williams	-	4,790	4,790	-
Section 56 and 57 Personnel					
Director: Financial Services - Acting	CJ Kapp	8,916	5,483	14,399	518
Director: Community Safety - Acting	BJ Nelson	3,645	5,684	9,329	183
Director: Electrotechnical Services	KD Grünewald	5,842	3,478	9,320	-
Director: Civil Engineering Services	HL Basson	7,608	7,914	15,522	1,280
Director: Planning and Housing	SB Erasmus	-	1,412	1,412	154
Director: Enviromental Affairs	AJ Smith	5,459	3,715	9,174	112
		124,921	**161,867**	**286,788**	**9,171**

The services rendered to related parties are charged at approved tariffs that were advertised to the public. No bad debts were written off or recognised in respect of amounts owed by related parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer deposits were received from councillors, the municipal manager and Section 57 personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Loans granted to related parties
In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. Loans, together with the conditions thereof, granted prior to this date are disclosed in note 5 to the Annual Financial Statements.

Compensation of related parties
Compensation of Key Management Personnel and Councillors is set out in notes 24 and 25 to the Annual Financial Statements.

	2012	2011

38. Related parties (continued)

Purchases from related parties
The municipality bought goods from the following companies, which are considered to be Related Parties:

Company name	Related person	Company capacity	Capacity at Municipality	Relationship	Purchases for the year
Aurecon SA (Pty) Ltd	Various	Various	Various	Various	10,191,797
ISHS	CM Willemse	Director	Teacher - Western Cape Education	Wife	199,395
Nashua George	HCF van Zyl	Director	Councillor	Wife	310,793
Nashua Mobile	D Mazibuko	Non Executive Director	National departments of Arts & Culture		1,347
Omnisolar	JE Albert	Member	Not Indicated	Wife	458,519
Rosmell	C Manchest	Director	SAPS	Wife	276,078
Unique Manufacture	T George	Owner	George Municipality	Wife	16,000
Raubenheimers Incorporated	WM Luttig	Director	Director: Western Cape Education Department	Wife	235,046
Seebosrand Catering	Mrs ME Classen	Owner	George Municipality	Daughter	88,016
Distinctive Catering Event	Mrs W Scheepers	Owner	George Municipality		4,800
At My Best Construction	S Ntantala	Member	National Department of Justice		2,925
Tuinroete Agri	Mrs S Mkhize	Non Executive Director	Service of the State		337,179
ABSA Bank Ltd (5 year contract)	Mrs M Ramos	CEO	Minister	Husband	2,263,816
Vela VKE Consulting Engineers (Pty) Ltd (3 year contract)	Mr J Basson	Director	Director	Brother	655,892
The Business Zone 2628	NP King	Owner	Department of Rural Development & Land Reform		34,800
					15,076,403

			2012	2011

39. Prior period errors and reclassifications
STATEMENT OF FINANCIAL POSITION

	2011 previously reported	Adjustments for errors	Reclassify adjustments	2011 restated
Assets				
Current Assets				
Inventories - refer to 39.7	304,479,415	(120,886,380)	-	183,593,035
Trade receivables from exchange and non-exchange transactions - refer to 39.3	74,358,153	3,891,971	-	78,250,124
Other receivables	30,698,239	-	-	30,698,239
Loans and receivables	316,243	-	-	316,243
Cash and cash equivalents	232,496,590	-	-	232,496,590
	642,348,640	**(116,994,409)**	**-**	**525,354,231**
Non-current Assets				
Property, plant and equipment - refer to 39.8 and 39.9	1,865,929,368	1,171,654	-	1,867,101,022
Intangible assets	2,098,782	-	-	2,098,782
Investment property	137,320,001	-	-	137,320,001
Loans and receivables	1,356,627	-	-	1,356,627
	2,006,704,778	**1,171,654**	**-**	**2,007,876,432**
Total Assets	**2,649,053,418**	**(115,822,755)**	**-**	**2,533,230,663**
Liabilities				
Current Liabilities				
Loans and borrowings	30,533,273	-	-	30,533,273
Trade and other payables from exchange transactions	93,220,343	-	-	93,220,343
VAT payable - refer to 39.1, 39.3 and 39.4	16,012,423	(22,519,828)	-	(6,507,405)
Consumer deposits	14,897,278	-	-	14,897,278
Employee benefits	20,649,472	-	-	20,649,472
Provisions	11,113,488	-	(9,718,939)	1,394,549
Unspent conditional grants and receipts - refer to 39.6	34,311,043	-	(4,132,633)	30,178,410
	220,737,320	**(22,519,828)**	**(13,851,572)**	**184,365,920**
Non-Current Liabilities				
Loans and borrowings	520,869,762	-	-	520,869,762
Employee benefits	92,520,643	-	-	92,520,643
Provisions - refer to 39.9	750,000	3,396,338	9,718,939	13,865,277
	614,140,405	**3,396,338**	**9,718,939**	**627,255,682**
Total Liabilities	**834,877,725**	**(19,123,490)**	**(4,132,633)**	**811,621,602**
Total Net Assets	**1,814,175,693**	**(96,699,265)**	**4,132,633**	**1,721,609,061**
Net Assets				
Housing development fund	70,710,661	-	-	70,710,661
Accumulated surplus	1,743,465,032	(96,699,265)	4,132,633	1,650,898,400
	1,814,175,693	**(96,699,265)**	**4,132,633**	**1,721,609,061**

	2012	2011

39. Prior period errors and reclassifications (continued)

STATEMENT OF FINANCIAL PERFORMANCE

	2011 previously reported	Adjustments for errors	Reclassify adjustments	2011 restated
Revenue from non-exchange transactions	342,533,653	-	132,823	342,666,476
Property rates - refer to 39.5	118,748,003	-	132,823	118,880,826
Property rates - penalties imposed and collection charges	1,329,568	-	-	1,329,568
Government grants and subsidies	209,306,671	-	-	209,306,671
Fines	13,149,411	-	-	13,149,411
Revenue from exchange transactions	498,995,019	5,441,493	3,999,810	508,436,322
Service charges	449,063,227	5,441,493	-	454,504,720
Rental revenue	1,828,659	-	-	1,828,659
Income from agency services	5,427,377	-	-	5,427,377
Licenses and permits	2,106,193	-	-	2,106,193
Other income - refer to 39.5 and 39.6	21,500,142	-	3,999,810	25,499,952
Interest received	19,069,421	-	-	19,069,421
	841,528,672	**5,441,493**	**4,132,633**	**851,102,798**
Expenditure				
Personnel cost - refer to 39.2	227,743,108	-	1,030,079	228,773,187
Remuneration of councillors	10,691,294	-	-	10,691,294
Loss on disposal of assets	440,326	-	-	440,326
Depreciation and amortisation - refer to 39.9	94,501,388	75,518	-	94,576,906
Impairment losses	27,523,970	-	-	27,523,970
Finance cost - refer to 39.9	52,847,533	322,654	-	53,170,187
Collection cost	5,960,226	-	-	5,960,226
Repairs and maintenance	55,364,168	-	-	55,364,168
Bulk purchases - referto 39.2	192,835,737	-	85,596	192,921,333
Contracted services	94,626,895	-	-	94,626,895
Grants and subsidies paid	5,124,374	-	-	5,124,374
Cost of erven sold - refer to 39.7	7,667,910	(6,697,910)	-	970,000
General Expenses - refer t0 39.2	76,517,772	-	(1,115,675)	75,402,097
	851,844,701	**(6,299,738)**	**-**	**845,544,963**
Surplus / (Deficit) for the year	(10,316,029)	11,741,231	4,132,633	5,557,835

Certain comparative figures have been reclassified due to incorrect allocations in the prior period. These reclassifications do not have any effect on the accumulated surplus except where indicated.

The correction of the error(s) and reclassifications are as follows:

	2012	2011

39. Prior period errors and reclassifications (continued)

39.1 Correction of VAT not claimed

During the current period, the municipality identified input VAT of R2,854,804 which was not claimed. This input VAT was for the financial year ending 30 June 2010. The municipality claimed the VAT and the South African Revenue Services paid it into the municipality's bank account. During the year this error was corrected and the effects are as follows:

Decrease / (Increase) in Accumulated surplus 30 June 2010 (opening balance 2010/2011)	(2,854,805)
Decrease / (Increase) in VAT payable for the year ended 30 June 2010	2,854,805
Total Decrease / (Increase) in Accumulated surplus for the year ended 30 June 2011	**(2,854,805)**

39.2 Reclassification of general expenses

It was identified that employee related expenses and bulk purchases was included in General Expenses on the statement of financial performance. These allocations have been corrected.

(Decrease) / Increase in Personnel Cost 30 June 2011	1,030,079
(Decrease) / Increase in Bulk Purchases 30 June 2011	85,596
(Decrease) / Increase in General Expenses 30 June 2011	(1,115,675)
Total Decrease / (Increase) in surplus for the year ended 30 June 2011	**-**

39.3 Correction of VAT suspense accounts due to the effect of the Equitable Share allocation on the VAT suspense accounts:

The VAT suspense accounts were reconciled from 2006/2007 financial year to the 2010/2011 financial year. It was identified that the VAT effect regarding the Equitable Share allocations was omitted in the capturing of the relevant transactions and resulted in the following corrections:

Decrease / (Increase) in Accumulated surplus 30 June 2010 (opening balance 2010/2011)	(12,338,396)
Decrease / (Increase) in Service Charges	(5,441,493)
(Decrease) / Increase in Trade Receivables	3,891,971
Decrease / (Increase) in VAT liability	13,887,918
Decrease / (Increase) in Accumulated surplus during the year ended 30 June 2011	(5,441,493)
Total Decrease / (Increase) in surplus for the year ended 30 June 2011	**(17,779,889)**

	2012	2011

39. Prior period errors and reclassifications (continued)

39.4 Reconciliation of billings between the Itron system (Service Orginisation) and the municipality's accounting system

A reconciliation was performed on billings between the Itron system and the municipality's accounting system. Differences were identified and the following adjustments were made as a result of the reconciliation:

Decrease / (Increase) in Accumulated surplus 30 June 2010 (opening balance 2010/2011)	(5,777,105)
Decrease / (Increase) in VAT payable for the year ended 30 June 2010	5,777,105
Total Decrease / (Increase) in Accumulated surplus for the year ended 30 June 2011	**(5,777,105)**

39.5 Reallocation of property rates income

During the year it was identified that two property rates accounts were included in Other Income. These accounts are now included in property rates and the effect are as follows:

Decrease / (Increase) in Accumulated surplus 30 June 2010 (opening balance 2010/2011)	-
Decrease / (Increase) in Property Rates	(132,821)
Decrease / (Increase) in Other Income	132,821
Total Decrease / (Increase) in surplus for the year ended 30 June 2011	**-**

39.6 VAT income on utilisation of unspent conditional grants received from National Treasury

According to MFMA Circular 48 and 59, National Treasury allows municipalities to recognise the input VAT claimed from the South African Revenue Services to be recognised as own revenue and therefore decrease the unspent portion of the grant. The municipality reviewed their grant expenditure for the previous year and the following corrections were made:

Decrease / (Increase) in Accumulated surplus 30 June 2010 (opening balance 2010/2011)	-
Decrease / (Increase) in Other Income	(4,132,633)
Increase / (Decrease) in Unspent Conditional Grants	4,132,633
Total Decrease / (Increase) in surplus for the year ended 30 June 2011	**-**

39.7 Housing erven included in inventory written down to the lowest of cost price or current replacement cost

It was identified that housing erven included in inventory was valued based on the values in the valuation roll but these erven are sold for little or no consideration when a housing project is completed. The municipality did not buy these properties and therefore the cost price of these properties are Rnil. These housing erven have been written down to Rnil which is the lowest of cost price or current replacement cost. The effect of this correction is as follows:

Decrease / (Increase) in Accumulated surplus 30 June 2010 (opening balance 2010/2011)	127,584,292
(Decrease) / Increase in Inventories for the year ended 30 June 2011	(120,886,382)
(Decrease) / Increase in Cost of erven sold for the year ended 30 June 2011	(6,697,910)
Decrease / (Increase) in Accumulated surplus during the year ended 30 June 2011	(6,697,910)
Total Decrease / (Increase) in surplus for the year ended 30 June 2011	**(120,886,380)**

	2012	2011

39. Prior period errors and reclassifications (continued)

39.8 Land and buildings not on asset register

During the year five properties were identified that is registered in the name of the municipality but were not included in the asset register. This has been corrected and the effect of the adjustment is as follows

Decrease / (Increase) in Accumulated surplus 30 June 2010 (opening balance 2010/2011)	(945,100)
(Decrease) / Increase in Property, plant and equipment for the year ended 30 June 2011	945,100
Total Decrease / (Increase) in surplus for the year ended 30 June 2011	**(945,100)**

39.9 Rehabilitation of landfill site

During the year the municipality used independant consultants to estimate the rehabilitation cost of the George landfill site. It was an error for not providing for this and the error was rectified as follows:

Decrease / (Increase) in Accumulated surplus 30 June 2010 (opening balance 2010/2011)	2,771,612
(Decrease) / Increase in Property, pland and equipment	302,072
(Decrease) / Increase in Depreciation expense	75,518
(Decrease) / Increase in Finance cost	322,654
Decrease / (Increase) in Accumulated surplus during the year ended 30 June 2011	398,172
Total Decrease / (Increase) in surplus for the year ended 30 June 2011	**3,169,784**

	2012	2011

40. Transfer of function between entities under common control

The boundary of the municipality has been redetermined by the Demarcation Board to include Uniondale, Haarlem and surrounding areas. Subsequently Eden District Municipality and George Municipality entered into an agreement to transfer the local municipal function for this area from Eden District Municipality to George Municipality. The assets and liabilities associated exclusively with this local municipal function was also transferred to George Municipality. The effective date for this transfer was 1 July 2011.

The assets and liabilities received by George Municipality are:

	Book values of assets receive and liabilities assumed
Assets	103,884,958
Property, plant and equipment	103,742,130
Water inventory	142,828
Less Liabilities assumed	6,274,889
Employee benefits	2,808,077
Current employee benefits: Bonus provision	199,433
Current employee benefits: Staff leave	451,621
Consumer deposits	73,754
Provisions	2,668,805
Payables from Exchange Transactions	73,199
Net assets	**97,610,069**

The transaction was funded as follows:	
Consumer deposits paid into the municipality's bank account by Eden District Municipality	(73,754)
Amount recognised in accumulated surplus	97,683,820
	97,610,066

The revenue and expenditure attributable to the transfer of function for the year ended 30 June 2012 are:

Revenue	**Original budget**	**Adjusted budget**	**Actual**
Service charges	7,812,000	9,162,000	6,867,351
Rates	2,014,000	2,014,000	1,527,981
Other income	1,529,000	1,529,000	79,168
Subsidies	8,173,900	8,173,900	8,173,900
	19,528,900	**20,878,900**	**16,648,400**
Expenditure	**Original budget**	**Adjusted budget**	**Actual**
Personel cost	3,786,000	3,786,000	12,573,223
Bulk purchases	5,244,000	4,244,000	3,795,677
Contracted services	484,000	484,000	534,648
Repairs and maintenance	1,609,900	1,583,025	945,704
Impairment of debtors	1,476,000	1,476,000	-
Depreciation	2,965,000	2,965,000	5,566,945
Finance charges	110,000	110,000	-
Other expenses	3,854,000	3,734,100	1,445,989
	19,528,900	**18,382,125**	**24,862,186**
Surplus / (loss)	-	2,496,775	(8,213,786)

	2012	2011

41. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the municipality through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk.

The municipality seeks to minimise the effects of these risks in accordance with its policies approved by the Council. The policies provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and in the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the Director Financial Services on a continuous basis. The municipality does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

The Treasury function reports periodically to the municipality's finance committee, that monitors risks and policies implemented to mitigate risk exposures.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

The municipality's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates.

The municipality's exposures to interest rates on financial assets and financial liabilities are detailed in appendix A.

Credit risk

Potential concentrations of credit rate risk consist mainly of investments, loans and receivables, trade receivables, other receivables, short-term investment deposits and cash and cash equivalents.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction/ exposure limits, which are included in the municipality's Investment Policy.

Trade receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these customers. Trade receivables are presented net of an allowance for impairment and where appropriate, credit limits are adjusted.

	2012	2011

41. Risk management (continued)

In the case of customers whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Non-current Receivables and Other Receivables are collectively evaluated annually at reporting date for impairment or discounting. A report on the various categories of customers is drafted to substantiate such evaluation and subsequent impairment / discount, where applicable.

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

Financial instrument	**2012**	**2011**
Loans and receivables	1,430,305	1,672,870
Trade receivables	87,298,374	78,250,124
Other receivables	34,140,674	30,698,239
Cash and cash equivalents	218,901,017	232,496,590

Market risk

The municipality does not hedge foreign exchange fluctuations.

Price risk

The effect of any price risk in the foreseeable future is regarded as minimal given the fact that amounts receivable from the municipality's customers are levied in terms of the relevant statutes. It is not anticipated that given the nature of the municipality's business that changes in market prices will have a material impact on the trading results of the municipality.

There has been no change, since the previous financial financial year, to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

42. Unauthorised expenditure

Employee Cost

Reconciliation of unauthorised expenditure		
Opening balance	-	25,428,542
Unauthorised expenditure current year	13,077,435	-
Approved by Council or condoned	-	(25,428,542)
Transfer to receivables for recovery(note 4)	-	-
Unauthorised expenditure awaiting authorisation	-	-
	13,077,435	**-**

The unauthorised expenditure relates to the budget overspending due to Provision for Employee Benefits. This was included in prior year's audit report. The report was submitted to Council and approved.

	2012	2011

42. Unauthorised expenditure (continued)

Impairment losses

Reconciliation of unauthorised expenditure		
Opening balance	-	8,946,099
Unauthorised expenditure current year	8,081,889	-
Approved by Council or condoned	-	(8,946,099)
Transfer to receivables for recovery (note 4)	-	-
Unauthorised expenditure awaiting authorisation	-	-
	8,081,889	**-**

The unauthorised expenditure relates to budget overspending due to economic decline and outstanding debts increased. This was included in prior year's audit report. The report was submitted to Council and approved.

Depreciation and amortisation

Reconcilliation of unauthorised expenditure		
Opening balance	-	-
Unauthorised expenditure current year	2,976,111	-
Approved by Council or condoned	-	-
Transfer to receivables for recovery (note 4)	-	-
Unauthorised expenditure awaiting authorisation	-	-
	2,976,111	**-**

The unauthorised expenditure relates to depreciation on DMA assets received being more than budgeted.

Other expenses

Reconcilliation of unauthorised expenditure		
Opening balance	-	-
Unauthorised expenditure current year	3,787,952	-
Approved by Council or condoned	-	-
Transfer to receivables for recovery (note 4)	-	-
Unauthorised expenditure awaiting authorisation	-	-
	3,787,952	**-**

The unauthorised expenditure relates to the rehabilitation of pipelines, land in the asset register that was utilised for housing projects and insurance claims that were not realised.

	2012	2011
42. Unauthorised expenditure (continued)		
General		
Opening balance	42,935,212	-
Approved in Adjustments budget	(42,935,212)	-
Unauthorised expenditure current year by vote awaiting authorisation (Refer note 51):		
Executive and council	14,474,000	16,999,093
Corporate services	6,305,000	2,227,602
Public safety	-	3,312,623
Road transport	-	3,686,089
Electricity	-	2,292,264
Water	-	6,688,325
Water waste management	5,906,000	4,248,285
Waste management	4,098,000	3,480,931
Enviromental Protection	246,000	-
Health	866,000	-
	31,895,000	**42,935,212**
43. Fruitless and wasteful expenditure		
Forensic invetigation at traffic department on cash received but not banked	11,050	-
44. Irregular expenditure		
Opening balance	562,346	1,104,460
Add: Irregular Expenditure - current year	37,725	562,346
Less: Amounts condoned	(562,346)	(1,104,460)
	37,725	**562,346**
Details of irregular expenditure - current year		
Persons in the service of the State not declared by suppliers	37,725	
Details of irregular expenditure – previous year		
Original quotations not attached to payments		190,184
Sole provider. Deviation not submitted		21,396
MBD 4 Declarations not attached to original documentation		160,204
Persons in the service of the State not declared by suppliers		190,562
		562,346
45. Material losses		
Electricity distribution losses		
Units purchased (Kwh)	449,607,827	451,650,526
Units lost during distribution (Kwh)	31,798,687	23,699,279
Percentage lost during distribution	7.07%	5.25%

	2012	2011

45. Material losses (continued)

Water distribution losses

Kilolitres purified	9,973,584	8,991,155
Kilolitres lost during purification	451,565	793,743
Percentage lost during distribution	4.53%	8.83%

46. In-kind donations and assistance

The municipality did not receive any in-kind donations and assistance during the year under review.

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee (SALGA)	1,610,687	1,037,088
Amount paid - current year (SALGA)	(1,610,687)	(1,037,088)
	-	-

Audit fees

Current year subscription / fee	3,906,646	3,332,982
Amount paid - current year	(3,906,646)	(3,332,982)
	-	-

PAYE and UIF

Current year subscription / fee	31,712,082	28,441,520
Amount paid - current year	(31,712,082)	(28,441,520)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	51,588,219	32,348,614
Amount paid - current year	(51,588,219)	(32,348,614)
	-	-

VAT

VAT receivable	4,964,237	6,507,404

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
BA Fortuin	2,298	2,334	4,632

The total amount outstanding was paid by BA Fortuin on 2 August 2012.

	2012	2011

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
I Stemela	308	8,231	8,539

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. Non-compliance with the Supply Chain Management Regulations were identified on the following categories and have been condoned.

Incident	Less than R30,000	Between R30,001 and R200,000	Between R200,001 and R2,000,000	More than R2,000,000
Office of the Municipal Manager	80,089	273,362	-	-
Corporate & Social Services	203,542	200,923	-	-
Civil Engineering Services	623,835	969,308	-	-
Electro-technical Services	438,863	436,940	-	-
Planning & Housing	48,871	311,626	-	-
Community Safety	208,247	348,034	-	-
Environmental Affairs	546,342	178,809	-	-
Financial Services	48,013	91,200	-	-
	2,197,802	**2,810,202**	**-**	**-**

The major deviations were as follows:

Awarded to	Reason / Explanation
Global Africa Network	Online marketing and advertising - Sole supplier
Tuinroete Agri	Material for fire damaged shelters - Emergency
Mustbuild	Material and structures for informal areas - Emergency
Business Engineering	Collaborator Support Services - Sole Supplier
Francois Barnard Charterd Accountant	Forensic Investigation - Exceptional Case
Key & Lock Services	Padlocks : Yellow / Green/ Red - Sole Supplier
Barloworld Equipment	Repair Caterpillar - Sole Supplier
Syntell	Movac Controller and spares - Sole Supplier
ABB South Africa	Switchgear - Sole Supplier
Hoistec Engineering	Inspections and load testing on equipment - Sole Supplier
George Fibreglass	Repair fire damaged lifeguard tower - Sole Supplier
RK Sauer Construction	Demolition of fire damaged building - Only supplier responded with a quote
Ramcom Trucks and load bodies	Remount load body : Mercedes Benz : CAW 10710 - Sole supplier in George
AKURA	Repair and services of compactor at Transfer Station - Custom build
Transmission Gear Services	Repairs an services to Hansen aerators at waste water treatment works - Sole Agent
Onduka	Chemicals - Sole Supplier
Huber Technology	Replacement of Huber Rotomat R02 : Outeniqua WWTW - Sole Supplier
RK Sauer Construction	Repair main water supply - Emergency
Much Asphalt	Hot & Cold Asphalt - Sole Supplier in Eden District.

Notes to the Financial Statements

	2012	2011

48. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	520,876,997	551,403,035

Long-term liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

49. Private Public Partnership

The municipality was not a party to any Private Public Partnerships during the current financial year.

50. Budget Comparisons

2012

Financial Performance	**2012 R Original Budget (a)**	**2012 R Adjusted Budget (b)**	**2012 R Actual (c)**	**2012 R Variance (b) - (c)**	**2012 % (b - c) / (b)**	**Reason for difference of more than 10%**
Revenue by source						
Property rates	139,499,000	132,499,000	127,788,416	4,710,584	4 %	
Property rates - penalties imposed and collection charges	1,435,000	1,435,000	1,217,609	217,391	15 %	The basis is so small that any small change gives a double digit figure
Government Grants and Subsidies	128,522,168	242,145,000	203,529,414	38,615,586	16 %	Capital projects funded from grants were more than originally anticipated
Fines	13,253,000	16,253,000	15,056,617	1,196,383	7 %	
Service charges	604,394,000	582,840,000	527,786,442	55,053,558	9 %	Indigent allocation per Service Charge; this will be altered or rectified in the Adjustments Budgets after the audit of the financial statements
Rental revenue	1,800,000	1,870,000	2,102,676	(232,676)	(12)%	This is due to the increase in municipal housing rentals, more Hawker Control stands and greater need for the use of community or Library halls
Income from agency services	5,695,000	5,695,000	5,751,031	(56,031)	(1)%	
Licences and permits	2,184,000	2,184,000	2,450,997	(266,997)	(12)%	It's the high demand for drivers and learners licence applications and also the renewal of licence disks
Other income	13,198,000	13,754,000	29,008,428	(15,254,428)	(111)%	The sale of erven contributed to R6,5 million of the variance and VAT income on grants contributed R6,9 million to the variance
Interest received	8,420,000	15,770,000	18,288,128	(2,518,128)	(16)%	Due to unspent conditional grants, the interest income was more than budgeted
Total revenue	**918,400,168**	**1,014,445,000**	**932,979,758**	**81,465,242**	**8 %**	

50. Budget Comparisons (continued)

	2012 R Original Budget (a)	2012 R Adjusted Budget (b)	2012 R Actual (c)	2012 R Variance (b) - (c)	2012 % (b - c)/ (b)	Reason for difference of more than 10%
Expenditure by nature						
Employee costs	(230,407,000)	(235,802,000)	(248,879,435)	13,077,435	(6)%	
Remuneration of councillors	(12,913,000)	(13,966,000)	(13,868,487)	(97,513)	1 %	
Depreciation and amortisation	(92,452,000)	(103,696,000)	(106,672,111)	2,976,111	(3)%	
Impairment losses	(11,476,000)	(11,476,000)	(19,557,889)	8,081,889	(70)%	Re-assesment or recalculation of the provision for bad debts was done
Finance charges	(59,085,000)	(57,252,000)	(57,217,007)	(34,993)	- %	
Bulk purchases	(249,284,000)	(247,284,000)	(244,403,075)	(2,880,925)	1 %	
Contracted Services	(80,719,000)	(116,615,000)	(100,248,256)	(16,366,744)	14 %	A budget was included with regards to a debtor created in the previous year, budget will be amended in the Adjustments Budget after the auditing of the financial statements
Grants and subsidies paid	(65,194,000)	(64,511,000)	(1,188,374)	(63,322,626)	98 %	Reallocation of the indigent grant to service charges
Other expenditure	(163,665,000)	(143,489,000)	(147,276,952)	3,787,952	(3)%	
Total expenditure	**(965,195,000)**	**(994,091,000)**	**(939,311,586)**	**(54,779,414)**	**6 %**	

50. Budget Comparisons (continued)

	2012 R Original Budget (a)	2012 R Adjusted Budget (b)	2012 R Actual (c)	2012 R Variance (b) - (c)	2012 % (b - c) / (b)
Expenditure by Vote	-				
Executive and council	(27,211,000)	(28,948,000)	(43,417,000)	14,469,000	(50)%
Budget and Treasury	(124,901,000)	(119,514,000)	(59,729,000)	(59,785,000)	50 %
Corporate Services	(46,665,000)	(41,656,000)	(47,958,000)	6,302,000	(15)%
Community and Social Services	(18,181,000)	(19,521,000)	(17,912,000)	(1,609,000)	8 %
Sport and Recreation	(18,545,000)	(18,242,000)	(18,025,000)	(217,000)	1 %
Public Safety	(39,481,000)	(42,620,000)	(42,132,000)	(488,000)	1 %
Housing	(65,851,000)	(89,841,000)	(82,015,000)	(7,826,000)	9 %
Health	(5,807,000)	(5,579,000)	(6,445,000)	866,000	(16)%
Planning and development	(16,977,000)	(16,637,000)	(15,839,000)	(798,000)	5 %
Road Transport	(97,829,000)	(105,355,000)	(97,987,000)	(7,368,000)	7 %
Enviromental Protection	(3,484,000)	(3,470,000)	(3,716,000)	246,000	(7)%
Electricity	(329,930,000)	(325,845,000)	(323,039,000)	(2,806,000)	1 %
Water	(78,741,000)	(82,188,000)	(76,412,000)	(5,776,000)	7 %
Water Waste Management	(53,244,000)	(53,888,000)	(59,794,000)	5,906,000	(11)%
Waste Management	(35,677,000)	(38,647,000)	(42,729,000)	4,082,000	(11)%
Other	(2,671,000)	(2,140,000)	(2,162,586)	22,586	(1)%
Total Expenditure by vote	**(965,195,000)**	**(994,091,000)**	**(939,311,586)**	**(54,779,414)**	**6 %**

50. Budget Comparisons (continued)

	2012 R Original Budget (a)	2012 R Adjusted Budget (b)	2012 R Actual (c)	2012 R Variance (b) - (c)	2012 % (b - c) / (b)
Capital expenditure by vote					
Executive and council	140,000	79,000	84,000	(5,000)	(6)%
Budget and Treasury	280,000	470,000	200,000	270,000	57 %
Corporate Services	-	10,000	13,000	(3,000)	(30)%
Community and Social Services	3,154,000	1,897,000	2,012,000	(115,000)	(6)%
Sport and Recreation	3,600,000	5,479,000	1,483,000	3,996,000	73 %
Public Safety	80,000	4,010,000	3,333,000	677,000	17 %
Housing	2,160,000	1,183,000	1,141,000	42,000	4 %
Road Transport	16,850,000	23,561,000	14,121,000	9,440,000	40 %
Environmental Protection	-	10,000	7,000	3,000	30 %
Electricity	58,669,000	37,858,000	35,613,000	2,245,000	6 %
Water	40,816,000	28,456,000	21,487,000	6,969,000	24 %
Waste Water Management	36,163,000	30,312,000	30,172,000	140,000	- %
Waste Management	1,000,000	-	-	-	DIV/0 %
Total Capital Expenditure	**162,912,000**	**133,325,000**	**109,666,000**	**23,659,000**	**18 %**
Sources of capital funds					
National Government	64,158,000	44,617,000	38,703,000	5,914,000	13 %
Provincial Governmnet	6,000,000	18,440,000	11,332,000	7,108,000	39 %
Other transfer and grants	4,000,000	3,000,000	-	3,000,000	100 %
Public contributions and donations	-	259,000	-	259,000	100 %
Borrowing	53,770,000	20,326,000	20,291,000	35,000	- %
Internally generated funds	34,984,000	46,683,000	39,340,000	7,343,000	16 %
Total sources of capital funds	**162,912,000**	**133,325,000**	**109,666,000**	**23,659,000**	**18 %**